

**10 - INSTRUCTIONS ISSUED IN CONNECTION WITH
THE RATIONALIZATION AND ORGANIZATION
OF BANKS CREDIT POLICY**

- A) Instructions concerning post-dated cheques.
- B) Circular confirming the Central Bank of Kuwait instructions of 8/5/1982 concerning post-dated cheques.
- C) Instructions No. (BSB/105/1993) Concerning the Rationalization and Organization of Banks Credit Policy (effective from 2/1/1994).
- D) Increasing the ratio of fixed Term Loans to the total value of KD Cash Credit Facilities Portfolio, to no less than 75%.
- E) Instructions No. (2/BS/13/1997) providing for All Personal Loans to be in the form of Fixed – Term Loans, Except For Margin Loans Extended to Finance the purchase of Securities.
- F) Instructions No. (2/BS/21/1997) obligating banks to define the purpose of extending credit facilities in their borrowing agreements with customers; and to ensure that credits are used for the purposes they were extended for.
- G) Instructions No. (2/BS/27/1997) concerning credit facilities extended by banks to finance trading in securities, and for other purposes.
- H) Circular No. (2/BS/63/1998) instructing banks to stop extending credit facilities for financing the purchase of securities by utilizing customer's funds within the bank's portfolio management.
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- J) Circular instructing banks to provide the Central Bank of Kuwait with detailed data on credit facilities extended for financing trading in shares in the Kuwait Stock Exchange.
- K) Circular obligating banks to verify the purpose of credit facilities extended to customers, particularly those facilities extended in foreign currencies, and to follow-up customers in this respect.
- L) Instructions regarding the fixing of interest rate on credit facilities in the borrowing agreements concluded with customers.

- M) Circular requiring banks to provide the Central Bank of Kuwait with detailed data on credit facilities extended for the purposes of financing trading in shares in the Kuwait Stock Exchange, on a monthly instead of weekly basis.
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- O) Circular concerning credit facilities extended to finance the execution of works and projects outside the State of Kuwait.
- P) Instructions Stipulating that the ratio of the balances of credit facilities portfolio should not exceed 80% of the deposit balances.
- Q) Circular No.(2/BS,IBS/211/2007) concerning the amendment of the method of calculating the ratio of credit facilities portfolio balances at 80% of the deposit balances.
- R) Circular No. (2/BS, IBS/224/2008) concerning the increase of the ratio of net credit facilities portfolio to deposits from 80% to 85%.
- S) Circular No. (2/BS, IBS/227/2008) concerning banks' financial transactions with investment companies.
- T) Circular on the general rules to be followed when banks extend the finance required for rectifying the conditions of local investment companies, under the local investment companies support program.
- U) Circular No. (2/BS/230/2008) to all conventional banks concerning the emphasis of the requirement of reducing interest rates on loans in line with the reduction of the discount rate.
- V) Circular concerning the resolution to grant exemptions on some regulatory ratios within the framework of extending the finance required to rectify the conditions of the local investment companies.
- W) Circular No. (2/BS, IBS /233/2008) directing banks to enhance the collaterals submitted by customers against credit facilities / finance transactions.
- X) Circular No. (2/BS, IBS /235/2008) requesting local banks to engage external auditors for carrying out a special audit on the banks' derivatives deals activity, and to submit the external auditors' report along with the audited annual financial statements.

- Y) Circular No. (2/BS/236/2008) stressing the requirement to reduce interest rates on loans, in line with the Central Bank of Kuwait's resolution to reduce the discount rate with effect of 8/10/2008.
- Z) Circular No. (2/BS/238/2009) to all conventional banks concerning variance in banks policies with regard to application of interest rates on loans.
- AA) Circular No. (2/BS, IBS/239/2009) stressing that banks may not extend finance to institutions and companies for the purpose of using it in financing activities that are not authorized under their memorandum or articles of associations.
- BB) Circular No. (2/BS,IBS/252/2009) requesting banks to assign their external auditors to carry out a special audit on the bank's activities in the area of dealing in derivatives, and to submit the external auditors report along with the audited annual financial data as at 31 December 2009, compared to the auditors comments included in their report as at the end of December 2008.
- CC) Circular No. (2/BS,IBS/272/2011) incorporating amendments to the instructions relating to the balances of the net credit (finance) portfolio that should not exceed 85% of the balances of private, government and financial institutions deposits.
- DD) Circular No. (2/BS,IBS/281/2012) to all Kuwaiti banks regarding submission of their external auditors' report on auditing the banks' activities in dealing on financial derivatives for their own account and for their customers' accounts, on a semiannual basis, along with assurance of the nature of activity practiced by banks in this respect.
- EE) Circular No. (2/BS, IBS/283/2012) To all local banks (Except Industrial Bank of Kuwait) concerning the maximum limit of extending finance.
- FF) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/315/2013) to all banks, investment companies and financing companies concerning regulations of finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.
- GG) Circular No. (2/ BS, IBS, IS, IIS, FS, IFS/321/2014) to all banks, investment companies and financing companies concerning the periodic statements for finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.
- HH) Circular No. (2/ BS, IBS, IS, IIS, FS, IFS/333/2014) to all banks, investment companies and financing companies concerning the periodic statements for finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.

- II) Circular No. (2/BS, IBS/365/2016) to all local banks (except Industrial Bank of Kuwait) concerning the maximum limit for extending finance.
- JJ) Circular No. (2/BS, IBS/479/2021) to all local banks regarding the controls for implementing the law No. (2) of 2021 on the rescue of small and medium-sized enterprises negatively impacted by COVID-19

THE GOVERNOR

*Rajab 15, 1402 H
May 8, 1982*

The Chairman,

Instructions Concerning Post-dated Cheques*

With reference to our letter dated on 21/4/1982, which was circularized to all local commercial banks requesting them to curb the expansion of banking credit facilities, a large portion of which is extended to finance trading in shares and real-estate, as indicated in our above-mentioned letter.

And, since banks extend credit facilities to customers against post-dated cheques, as revealed by the data recently requested by the Central Bank of Kuwait from banks on credit facilities extended against post-dated cheques.

The Central Bank of Kuwait requests banks to refrain from extending credit facilities against post-dated cheques, and not to rely in any way on these cheques in extending credit facilities to customers, in light of many considerations, including :

First: According to Article (532) of Kuwait's commercial law, a cheque is only a means of settlement, and shall be payable at sight and any stipulation to the contrary shall be void. If the cheque is presented for payment prior to the date shown there in as the date of its issue, it shall be payable on the day of its presentment. In light of these provisions, bank's task with regard to cheques in general, shall be limited to payment of cheques drawn on them upon presentment, and to the collection of cheques drawn on other banks.

Second: Banks reliance in any form on post-dated cheques for extending credit facilities to customers, would create the impression in local or foreign financial communities that the Kuwaiti banks are discounting cheques or considering them as collateral for the credit facilities they extend. Such an impression raises suspicions about the soundness of banking business in Kuwait.

Third: Banks reliance on post-dated cheques in extending credit facilities to customers, is considered as encouraging the expansion of credit facilities extended for non-productive purposes, due to the huge volume of such types of cheques resulting from forward sales of shares and real-estate property. Such an expansion in credit facilities would have adverse impacts on the economic activity, in general, and on the banking system liquidity, in particular.

* Circulated to all local banks

In view of the above reasons, the Central Bank of Kuwait stresses the necessity for banks to refrain from extending credit facilities against post-dated cheques and not to rely in any form on such cheques in their decisions for credit extension.

These instructions shall apply to loans extended to your customers, with effect from the date of this letter.

With my best Wishes,

**THE GOVERNOR
HAMZA ABBAS HUSSAIN**

GOVERNOR

*Muharram 7, 1410 H
August 8, 1989*

THE CHAIRMAN,

Circular To All Local Banks

The Central Bank of Kuwait has noticed that some local banks have lately started, within the process of offering credit facilities, to ask some of their customers to present post-dated cheques as part of the required collateral. Further to our letter of 8/5/1982 requesting banks to refrain from extending banking facilities against post-dated cheques, and not to rely on such cheques in any manner when considering the extension of credit facilities to customers. And Further to the Central Bank of Kuwait instructions concerning the Rationalization and Organization of Banks Credit policy implemented as of 1/1/1980, we would like to draw your attention to the following :

- 1) The primary criterion for extending credit facilities should be based on your credit review justifying such extension, whether in regard to the amount of the facility or the conditions of its extension.
- 2) Banks should refrain from granting facilities against post-dated cheques issued by customers or their guarantors, whether these cheques are requested as collateral or as additional documentary evidence of indebtedness.
- 3) Contracts should be signed between banks and their customers as per sound banking practices. If banks seek additional documentation as evidence of indebtedness, they may ask their debtors to sign "Promissory Notes". while preserving the customers' legal rights as a result of your bank entering into loan contracts with these customers.

Your bank is requested to adhere to these instructions in the interest of banking business in Kuwait.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

GOVERNOR

*Rajab 15, 1414 H
December 28, 1993*

THE CHAIRMAN,

**Instructions No. (BSB/105/1993) concerning the
Rationalization and Organization of Banks Credit Policy***

We would like to advise you that the Central Bank of Kuwait Board of Directors, in its meeting on 25/12/1993, ratified the instructions No. (BSB/105/93) for the rationalization and organization of banks credit policy.

Enclosed is a copy of these instructions which are to be implemented effective from 2/1/1994. According to Item (10) of the General Rules of these instructions, your bank is required to provide the Central Bank, within a maximum period of two month from this date, with your updated credit policy.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

* Circulated to all local banks

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

C) Instructions No.(BSB/105/1993) concerning the rationalization and organization of banks credit policy (effective from 2/1/1994).

Instructions No. (BSB/105/1993) Concerning The Rationalization and Organization of Banks Credit Policy*

The establishment of the credit policy is the responsibility of each individual bank, which should take into account the relevant laws and instructions, as well as the established credit rules and practices, in a manner that harmonizes the various elements of the credit extension process and the returns anticipated therefrom, in achievement of the bank's objectives and future plans.

In light of Article (15) of Law No. 32 of the year 1968 concerning currency, the Central Bank of Kuwait and the Organization of Banking Business, regarding the Central Bank's objective of directing the credit policy in furtherance of social and economic progress and national income growth, and pursuant to Article (71) of the same law stipulating that the Central Bank of Kuwait may issue to the banks such instructions as it deems necessary to implement its credit or monetary policy, or to ensure the sound progress of banking business; the Central Bank of Kuwait Board of Directors has decided to issue the following instructions concerning the rationalization and organization of banks credit policy:

First : Banks to continue abiding by the instructions issued to them on 29/12/1979 and the amendments there of, concerning the rationalization and organization of banks credit policy, in particular the following provisions :

- 1) Ratio of the term loans and loans extended in the form of discounting KD commercial papers, may not fall below 60%¹ of the total cash KD facilities.
- 2) At least 90% of cash Credit facilities granted in foreign currencies should be in the form of term loans and loans extended through the discount of commercial papers.
- 3) Term loans² shall mean to be such loans which satisfy the following requirements :
 - a. Contracts or written agreements to be concluded between the lending bank and the borrowing customer in respect of such loans.
 - b. The loan contract or agreement to specify the loan disbursement date or dates, as well as the loan repayment date or dates.

* Circulated to all local banks

¹ The percentage was increased to become 75% effective no later than 30/6/1997 – CBK circular dated 5/12/1996.

² Circular No. (2/BS/13/1997) issued on 10/4/1997 obligated banks that all personal loans should be in the form of fixed-term loans, except for margin loans extended to finance the purchase of securities.

- c. The loan contract or agreement to specify the purpose of the loan to which both of the bank and the borrower shall adhere.
- 4) Credit facilities granted through the discount of commercial papers shall under these regulations be considered as term-loans, provided that the banks are aware of the economic activities from which the discounted commercial papers originated.

Second : The board of directors of each bank must - in keeping with its duties and responsibilities toward depositors and shareholders - ensure that the credit facilities extended to customers achieve the following basic objectives :

- Safeguard the depositors funds through minimizing the risks involved in the extended credit facilities, through proper determination of size of the facility which is being processed, setting appropriate credit conditions and other conditions.
- Enhance the profitability for shareholders through granting credit facilities at appropriate interest rates.

While observing the aforesaid, the bank's credit policy must be written and approved by the bank board of directors, and must comprise the following rules and bases, as a minimum :

A- Credit Applications (Grant – Renewal – Increase) :

To be considered the applications for granting or renewing credit facilities, or increasing the approved limits; they must be submitted on proper forms which shall include all the basic data. The bank must specify the documents required from the customer, and must stress the importance of accuracy in filling-up such forms. The form should at least include the following information :

- Size and type of requested credit.
- Purpose of credit, in detail.
- Repayment sources.
- Customer's basic data (Legal Status, Address of the Head Office, type of Business, etc.).
- Banks and Other financial institutions which the customer deals with, and size of facilities obtained therefrom.
- Customer's property and detailed statement of offered collaterals (in kind and personal guarantees).

- The customer's financial data must be attached to the form, and include the latest financial position and statement of the projected cash-flows for the following business period, thus Detailing the projected cash inflows and outflows for the requested facility's period. For legal entities, the last two audited balance sheets also must be attached, except for those companies which have not yet issued balance sheets due to the recency of their activities.

B- Credit Review :

The process of granting, renewing and increasing credit facilities must be subject to a comprehensive credit review that takes into account the following:

- Extensive review of the customer's financial position and cash-flows for identifying his actual financial position and analyzing the results of his activities, and obtaining detailed data on the income and expenditure items and a report on previous dealing with the customer, for the purpose of assessing the customer's solvency, his capacity to manage his activity and solve any problems which he would encounter in the course of such activity, as well as the ability to meet his obligations during the determined repayment period.
- Credit review must also include the customer's basic data which are mentioned in the credit application, outcome of the enquiry made on the customer, and the opinion regarding the extent to which the customer's size of business and the credit facilities granted by the bank are proportionate with the customer's own resources and his overall capabilities.
- Detailed statement of the securities to be required from the customer, with a new evaluation of such securities. Services of authorized firms must be utilized for the evaluation of assets whose nature so requires.
- The recommendation to approve or decline the customer's request for credit extension must rely on clear and specific justifications; and the conditions of extending the facilities must include the documents which the customer is supposed to sign or submit.

C- Follow-Up of extended Credit Facilities :

- The bank is required to develop a system for the regularly follow-up of the extended credit facilities. Within that system, there must be a segregation between the organizational unit which has conducted the credit review and those in charge of following-up the extended credit facilities.

- The follow-up system must encompass all the matters relevant to the extent of customer's abidance by the credit approval's conditions, the transactions in the customer's accounts and the assurance that the extended credit facilities were used for the purposes they were extended for.
- Credit facilities extended to the customer must be reviewed regularly, and the developments of the customer's financial position followed-up through updated financial statements; existing collaterals must be revalued and granted credit facilities should not be automatically renewed.
- The credit limits granted to customers must be abided by, in particular for overdraft facilities. The excess should be within the limits of the authority granted for such approval; it should also be kept within the narrowest possible limits, extended temporarily and repaid within a short period of time. In case of the customer's failure to repay the overdraft within such period, without acceptable reason, he will no more be allowed to exceed his credit-limits.
- The credit facilities agreements must provide that in case the customer does not adhere to any of the credit facilities conditions, the facility shall become immediately repayable and appropriate actions will promptly be taken for debt collection. The bank should strictly execute the terms of such agreements.

D- General Rules :

- 1) Credit officers must be chosen on the basis of experience and capability to discharge the duties inherent in such positions which are of a special nature.
- 2) The bank must observe, to the extent possible, the matching of sources of funds with their utilizations, especially in terms of maturity, to avoid any financing gaps that may adversely impact the bank's financial position.
- 3) The bank must develop a system for credit authorization, which shall include the formation of various credit committees, the clear and precise definition of their mechanism and the credit powers vested in them, as well as the various management levels entrusted with credit approval decisions.

In determining credit authorization, the bank must differentiate between credit extended locally and that extended internationally, the type of extended credit and its distribution among the economic sectors, along with establishing controls for handling exceptions to such authorization and overdrafts in customer accounts beyond the set limits.

- 4) Upon approval, grant or renewal or increase of the extended credit facilities, the bank must :
 - a. Take into account the data prepared by the Banking Supervision Department of the Central Bank of Kuwait concerning of Centre of Risks data.
 - b. Conduct enquiries on the customers and re-conduct such enquiries on a regular basis during the validity period of the extended facilities.
- 5) Study the purpose of the facility, so as to ensure that the type, size and currency of the facility are in line with the purpose of its extension, and that this purpose is in harmony with the bank's general policy.¹
- 6) Ensure that the terms of the extended credit facilities must be commensurate with the purpose for which the facility is granted, so that repayment is requested from the customer on maturity. Existing credit facilities shall not be automatically renewed.
- 7) Granting, renewing or increasing the credit facilities to the customer shall not rely on personal guarantees as a the main element. Rather, such decisions should be based on an integrated credit review explaining the feasibility of the extended facility, and taking into account the soundness of the customer's financial position, the availability of repayment sources, provided collaterals and other considerations.
- 8) Personal loans granted to customers must be treated on the same bases and according to the same regulations as other types of credit.
- 9) The credit risks which the bank might be exposed to should minimized through the following :
 - a. Distribution of credit risks to a wide customers base, taking into account the Central Bank instructions concerning the maximum credit concentration limits.
 - b. Diversification of the credit facilities portfolio and distribution thereof into various sectors of the economic activity.
 - c. Setting maximum risks limits for external credit, taking into account the nature of risks inherent in each country individually.

¹ This item was confirmed by Circular No. (2/BS, IBS/239/2009) issued on 9/3/2009.

- 10) The bank is required to take the appropriate measures to ensure that various managerial levels are strictly compliant with the established credit policies. The bank should also :
- a. Periodically review the credit policy and carry out the necessary amendments thereto in light of the bank's general policy and market conditions and developments, while observing any instructions issued by the Central Bank in this respect.
 - b. Provide the Central Bank with an updated copy of the bank's credit policy after carrying out the appropriate amendments in line with these instructions, as well as any future amendments to that policy.

THE GOVERNOR

*Rajab 24, 1417 H
December 5, 1996*

The Chairman,

Increasing the Ratio of Fixed Term Loans*

Further to our letter dated 28/12/1993, concerning the instructions No. (BSB/105/93), issued by the Central Bank regarding the rationalization and organization of banks credit policy,

And within the achievement of the goals targeted by these instructions, namely, to direct the banking credits Kuwaiti Dinars the benefit of economic growth and to encourage the economic sectors to play an effective role in developing the economy, and to eliminate the expansion in the unproductive economic sector the Central Bank of Kuwait Board of Directors at its meeting held on 1/12/1996 has decided to increase the minimum ratio of term loans and loans extended in the form of discount of commercial papers denominated in Kuwaiti Dinars, to 75% of the total cash Kuwaiti Dinars facilities, instead of the 60% ratio applied according to the instructions issued on 28/12/1993 for the rationalization and organization of local banks credit policy. Banks are required to achieve the said ratio by 30/6/1997 at the latest.

Based on the above, your bank is required to take appropriate action to increase the ratio of term loans by 30/6/1997 to 75% of the total Kuwaiti Dinars credit facilities extended by your bank to all its customers.

It should be noted that your bank should continue to apply other rules provided for under the instructions dated 28/12/1993, concerning the rationalization and organization of banks credit policy.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

* Circulated to all local banks

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

E) Instructions No. (2/BS/13/1997) providing for all personal loans to be in the form of fixed-term loans, except for margin loans extended to finance the purchase of securities.

THE GOVERNOR

Thu Al-Hijja 3, 1417 H
April 10, 1997

The Chairman,

Circular to All Local Banks No. (2/BS/13/1997)

With reference to our letter dated 28/12/1993, concerning the Central Bank's instructions No. (BSB/105/93) concerning the rationalization and organization of banks credit policy, as well as to our letter dated 5/12/1996 with regard to raising the minimum ratio of term loans ratio by 30/6/1997 to 75% of the total Kuwaiti Dinars credit facilities extended by your bank to all its customers.

The Central Bank of Kuwait Board of Directors at its meeting of 9/4/1997 decided that all personal loans extended by your bank shall be in the form of term loans, except for those granted under the margin trading account for the purpose of buying securities, which shall be recorded under loans to purchase securities. Accordingly, all loans listed under the items of "residential loans" and "other loans" shall be treated as term loans.

Therefore, your bank is required to immediately comply with these instructions in connection with any new or renewed personal credit facilities, and to apply them, within a period not exceeding one year from the date of this letter, to the existing overdraft portion included within the personal loans balances.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

THE GOVERNOR

Muharram 8, 1417 H
May 15, 1997

The Chairman,

Circular to All Local Banks No. (2/BS/21/1997)

With reference to our letter dated 28/12/1993, concerning the instructions No. (BSB/105/93) issued by the Central Bank in connection with rationalization and organization of the banks credit policy, and to our two letters dated 5/12/1996 and 10/4/1997, regarding term-loans and consumer loans.

We have noted that local banks do not comply with the requirement of specifying the purpose of the credit facilities upon their extension to customers. This renders banks unable to follow-up the utilization of credit facilities by customers for the purposes they were granted for, in line with the instructions issued in respect of the rationalization and organization of banks credit policy.

Therefore, your bank is required to take appropriate action to verify that the purpose of the facilities is duly specified in the relevant agreements concluded with the customers, and to ensure that such credit facilities are utilized for the purpose they have been extended for, pursuant to paragraph (C) of Item (3) of First from the instructions No. (BSB/105/93) concerning the rationalization and organization of banks credit policy.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

F) Instructions No. (2/BS/21/1997) obligating banks to define the purpose of extending credit facilities in their borrowing agreements with customers; and to ensure that credits are used for the purposes they were extended for.

THE GOVERNOR

Muharram 20, 1418 H
May 27, 1997

The Chairman,

Circular to All Local Banks No. (2/BS/27/1997)

Please note that the Central Bank of Kuwait Board of Directors have approved, at their periodic meeting held on 26/5/1997, the instructions concerning the credit facilities extended by banks for financing trading in securities and for other purposes.

Enclosed please find a copy of these instructions which your bank is required to adhere to effective as of their date of issuance.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

**INSTRUCTIONS NO. (2/BS/27/97) CONCERNING CREDIT
FACILITIES EXTENDED BY BANKS FOR FINANCING TRADING IN
SECURITIES AND FOR OTHER PURPOSES**

First : Regulations relating to the credit facilities extend for the purpose of purchasing securities :

- 1) Banks shall treat credit facilities – of all types – which are extended for the purpose of purchasing securities on the same bases and according to the same rules applicable to the credit facilities extended for other purposes. The banks shall also fully adhere to the Central Bank of Kuwait instructions dated 28/12/1993, regarding the rationalization and organization of local banks credit policy.
- 2) Banks shall stop granting new credit facilities – of any type – to finance trading in shares in the Kuwait Stock Exchange (Overdraft, trading facilities against cash margin, direct loans), and to initiate necessary actions to reduce the balances utilized of these facilities and existing on the date of issuance of these instructions, so that the maximum size of the facilities utilized for financing such type of activity, shall not exceed 10% of the total credit facilities portfolio extended to the resident customers or 25% of the bank's capital in its comprehensive concept whichever is lower (as per the instructions issued on 28/12/1992 regarding capital adequacy). This ratio must be attained latest by end of year 1997.

Banks should submit to the Central Bank of Kuwait specific time tables for the reduction to the targeted ratio of the balances of these credit facilities outstanding with them on the date of issuing these instructions.

The balances Exempted from the above ratio are those facilities extended by banks for the purpose of financing the purchase of shares within the privatization programme, whether through auction or public subscription, In this regard, the provisions of Article No. (5) of these instructions shall be observed.

- 3) Banks shall to rally refrain from extending granting margin trading facilities and shall cancel the unutilized limits as at the date of issuance of these instructions. A time schedule must be drawn for collecting balances of outstanding debts resulting from these facilities, on a gradual basis and in such a manner that they are fully repaid on their maturity dates⁽¹⁾.

⁽¹⁾ Banks were allowed to resume extension of margin lending in accordance with the rules approved by the Central Bank of Kuwait Board of Directors – circular no. (2/BS/69/1999) dated 8/2/1999.

- 4) Banks shall diversify the collaterals obtained against the extension of credit facilities for the purchase of shares, and not rely only upon the pledge of shares are purchased with the extended financial facility. Such collaterals should be constantly revaluated in order to ascertain their sufficiency for offsetting the risks of default.
- 5) Upon granting credit facilities for the purpose of financing the transactions relating to the privatization program, Banks shall adhere to the bases and rules mentioned under the instructions relating to the rationalization and organization of local banks credit policy, in particular those instructions requiring banks to conduct a complete and integral credit review, as well as to specify the purpose of the facilities, determine the size of the required credit precisely, the maturity of the facilities and sources of repayment, in the light of the customer's credit review. Banks should not allow surpassing the authorized limit. In case of shares purchased through auction, the feasibility of the granted credit facilities must be checked, in the light of the study presented by the customer on the economic feasibility of purchasing a large stake in a certain company.

Second : Credit facilities extended for purposes other than financing share purchase:

- 1) Banks shall fully adhere to the minimum limits provided for under the instruction to banks dated 28/12/1993 concerning the rationalization and organization of the local banks credit policy.
- 2) Banks are required to adhere to the sound bases for credit approval, particularly with regard to determining the purpose and size of required credit in accordance with the customer's real need for financing the relevant activity. Banks should be guided by the outcome of the comprehensive credit review of the feasibility of the granted facility, taking into account the soundness of the customer's financial position, availability of repayment sources, the collaterals presented against such facilities and other considerations.
- 3) Banks shall take all necessary measures to ensure that the extended facilities are not utilized by customers for purposes other than those they were granted for, and shall continually follow-up customers in this connection. An agreement should be between the bank and customer upon granting these facilities, whereby the facility shall be considered as falling due in the event the customer utilizes it for purposes other than those it was granted for. In such cases, the bank shall take all necessary measures to collect this facility.
- 4) Banks shall take necessary measures to ensure utmost accuracy in classifying credit facilities by economic sectors, and by the purpose for which they are

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

G) Instructions No. (2/BS/27/1997) concerning credit facilities extended by banks to finance trading in securities, and for other purposes.

granted and utilized, so that the statements submitted to the Central Bank of Kuwait reflect the correct classification of credit facilities granted to customers.

Third : These instructions shall be implemented effective as of the date of their issuance.

Issued on 26/5/1997.

THE DEPUTY GOVERNOR

Jumada Alakhira 17,1419 H
October 8, 1998

The Chairman,

Circular to All Local Banks No. (2/BS/63/1998)

Reference is made to the instructions No. (2/BS/27/1997) dated 27/5/1997, requiring banks to discontinue extending any new credit facilities for the purpose of financing the purchase of securities.

Please note that it has been noticed that some units subject to the Central Bank of Kuwait supervision, grant credit facilities for the purpose of financing the purchase of securities, utilizing their customers' funds within the framework of portfolio management.

In light of the above, we would like to clarify that the above mentioned instructions to discontinue extending credit facilities for financing the purchase of securities also apply to the facilities granted for that purpose by units subject to the central bank supervision, through utilizing customers funds within the portfolio management by such units.

With my best Wishes,

The Deputy Governor
Dr. Nabeel Ahmed Al-Manna'e

THE GOVERNOR

Shawwal 22, 1419 H
February 08, 1999

The Chairman,

Circular to all Commercial Banks No. (2/BS/69/1999)

I would like to advise you that the Central Bank of Kuwait Board of Directors has decided, at its meeting held on 7/2/1999, to allow the commercial banks to resume granting margin facilities beside other loans and credit facilities extended to customers to finance trading in shares in the Kuwait Stock Exchange, within the limits fixed for banks in this regard according to the instructions issued on 26/5/1997 (10% of total credit facilities portfolio extended to the resident customers, or 25% of the bank's capital in its comprehensive concept, whichever is lower).

Enclosed please find a copy of the instructions No. (2/BS/69/1999) which were approved by the Central Bank of Kuwait Board of Directors in relation to the credit facilities granted by banks to finance trading in shares in the Kuwait Stock Exchange, which must be complied with from this date.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

Instructions No. (2/BS/69/1999) Concerning Credit Facilities Granted By Banks To Finance Share Trading Transactions At The Kuwait Stock Exchange

FIRST : Commercial banks are allowed to resume granting margin facilities beside other loans and credit facilities extended to the customers, to finance share-trading transactions at the Kuwait Stock Exchange, within the limits fixed for banks in this regard under the instructions No. (2/BS/27/1997) issued on 26/5/1997 in respect of credit facilities granted by the banks to finance trading in shares at Kuwait Stock Exchange and for other purposes (10% of total credit facilities portfolio extended to the resident customers, or 25% of the bank's capital in its comprehensive concept, whichever is lower).

SECOND: Banks should adhere to the following controls - as a minimum - when granting credits in the form of margin facilities :

1. The customer's credit position must be reviewed irrespective of the collaterals he submits. Banks must also comply with the principles mentioned in the Central Bank of Kuwait instructions to banks on 28/12/1993 regarding the rationalization and organization of the credit policy of local banks. Margin facilities should not be granted before the bank has set up an explicit credit policy in this regard, approved by its board of Directors and submitted to the Central Bank of Kuwait.
2. The margin offered by the customer must be in the form of cash and/or securities listed on the Kuwait Stock Exchange, and must meet the conditions applied by the bank.
3. The facility granted by the bank should not exceed 200% of the margin submitted by the customer (cash funds and/or total market value of the securities offered by the customer at the onset of the financing).
4. The facility's maturity should not exceed one year renewable based on a new credit review of the customer.
5. The bank shall commit to preparing a list of the shares listed on the Kuwait Stock Exchange, and which are allowed to be traded within the financial portfolios of customers who obtained margin facilities, whether such shares are the securities offered by them at the beginning of financing or the shares dealt with during management of the portfolio.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- D) Circular No. (2/BS/69/1999) concerning credit facilities extended by banks for financing trading in shares in the Kuwait Stock Exchange (allowing commercial banks to resume the extension of margin trading facilities, and setting the rules to be complied with in this regard).

When selecting the shares to be included in the said list, banks must consider the liquidity aspects (average share turnover), profitability of the selected shares and soundness of the financial positions of the companies whose shares are chosen.

6. The bank shall compose and manage the securities portfolio (from the list of shares prepared by the bank), on behalf of the customer and for his account, and according to the conditions agreed upon between the two parties. The bank shall keep the documents concerning all transactions within the portfolio, and records – independent from the bank’s records – of relevant information, which the customer shall have the right to inspect. The customer shall be provided with periodic statements and reports on the portfolio’s position, performance, evaluation and any other information in this regard.
7. The bank shall follow up the portfolio’s market value on a daily basis, so that it will not fall below 125% of value of the credit granted to the customer. In the event this ratio falls below that limit, the customer shall have to submit funds and/or securities acceptable by the bank in order to achieve the mentioned ratio. If the customer does not comply with this condition, the bank shall terminate the agreement concluded with him and take necessary measures to settle the customer’s obligations resulting from the granted facility, either by liquidating the portfolio or by foreclosing it, while observing the necessary legal regulations and rules in this connection.
8. The Central Bank of Kuwait instructions regarding the rules regulating the management of the third party’s portfolios must be complied with. The bank should also observe professional and technical ethics in the managing of portfolios, and shall not allow the investment in shares of any one company to exceed 25% of the portfolio’s market value.
9. Any bank granting margin facilities must have sufficient professional and technological capabilities which will enable it to manage the securities portfolios.

THIRD: These instructions shall come into effect from the date of their notification, and shall supersede any contradicting previous instructions passed in this connection.

Issued on 8/2/1999.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- I) Circular No. (2/BS/69/1999) concerning credit facilities extended by banks for financing trading in shares in the Kuwait Stock Exchange (allowing commercial banks to resume the extension of margin trading facilities, and setting the rules to be complied with in this regard).

THE MANAGER

Thul-Qi'da 12, 1419 H
February 28, 1999

The General Manager,

Circular To All Local Banks

With reference to the Central Bank of Kuwait instructions No. (2/BS/27/1997) issued on 26/5/1997, and instructions No. (2/BS/69/1999) issued on 8/2/1999, concerning the credit facilities granted by the banks to finance share trading transactions in the Kuwait Stock Exchange.

Please note that your bank is required to provide us, on a weekly basis, with a detailed statement of the credit facilities granted to finance share trading transactions at the Kuwait Stock Exchange, using the attached form, on a weekly basis⁽¹⁾, effective from the week ended on 11/2/1999. This statement should be submitted at the beginning of the first working day of each week following the week for which the statement is prepared, instead of the daily form which used to be submitted to us previously.

Best Regards,

Ibrahim Ali Al-Qadhi
Manager of Supervision Department

⁽¹⁾ Effective 31/10/2001 the frequency of reporting has been amended to become on a monthly basis instead of weekly basis – circular dated 23/10/2001.

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

(Weekly Statement)

**Statement Of Loans Granted For Financing Trading Of
Shares Listed on the Kuwait Stock Exchange**

As at / /

Bank Name:

(Amounts in thousand KD)

S.N	Description	Amount Granted	Amount Utilized	Collaterals Available		Number of Customers
				Kind	Market value	
1	Fixed term loans					
2	Overdraft facilities					
3	Margin loans					
4	Indirect loans (Non-cash facilities)*					
5	Total (1+2+3+4)					
6	Facilities and loans granted to finance privatization and subscription transactions					
7	Grand total (5+6)					

8- Capital in its comprehensive concept Thousand KD (according to the last quarterly report to the central bank – date to be specified)

25% of the capital in its comprehensive concept: Thousand KD

9- Total credit portfolio for resident customers as at:...../...../.....

10% of the total portfolio: Thousand KD

10- Borrowing limits allowed (10% of the facilities granted to residents and 25% of the capital of the bank in its comprehensive concept whichever is lower):

..... Thousand KD

* Type to be stated.

GOVERNOR

*Sha'ban 6, 1420 H
November 14, 1999*

THE CHAIRMAN,

Circular To All Local Banks

We refer to our letter dated 28/12/1993, regarding the instructions No. (BSB/105/93) issued by the Central Bank of Kuwait on the rationalization and organization of the local banks credit policy, and to our two letters dated 24/3/1996 and 15/5/1997, whereby we confirmed the requirement to adhere to the said instructions particularly in relation to the purpose of credit facilities extended to the customers.

We observed that a number of resident customers tend to obtain credit facilities in foreign currencies without any real need for such currencies, except for benefiting from the interest rate differences or utilize this method for speculative purposes.

Therefore, we underscore the necessity for the local banks to precisely adhere to the mentioned instructions, together with the drawing an emphasis on reviewing the purpose of the credit facilities upon granting them to the customers, in particular those granted in foreign currencies. Banks are also required to follow up the customers observance of the purpose for which these facilities were extended, where by that review should encompass assessing the customer's need for the requested foreign currencies to finance his activities, and the real utilization of such currencies within the request for credit. Additionally, banks must verify the availability of sources of repayment in the same currencies.

Within the same framework, we confirm the importance of strict compliance with the classification of the credit facilities granted to the customers, based on the purpose mentioned in the credit facilities agreements concluded with such customers.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

K) Circular obligating bank to verify the purpose of credit facilities extended to customers, particularly those facilities extended in foreign currencies, and to follow-up customers in this respect.

GOVERNOR

*Ramadhan 14, 1420 H
December 22, 1999*

THE CHAIRMAN,

Circular To All Local Banks*

We have observed that the credit facilities contracts concluded between banks and their customers, include a clause reserving the banks right to amend the interest rate by increasing it at any time throughout the validity of such contracts. Considering the importance of maintaining the stability of the legal positions and economic interests of both contractual parties (bank, customer), thus safe guarding the integrity of bank credit, and since the agreed upon interest rate which is considered as an economic cost for obtaining loans and credit facilities, is among the most important factors that achieve balancing between the two contracting parties of the credit facilities contracts at the time of concluding the contract and throughout its validity, the amendment or change of the contractual interest rate, might cause unfairness to the creditor or debtor and instability of transactions.

Therefore, all banks are required to cancel the said clause from the credit facilities contracts concluded with their customers, and replace it by another clause stipulating that a fixed or a variable interest rate shall be applied throughout duration of such agreements, depending on the interest rates prevailing in the market. Customers should be given the option to choose one of the aforesaid methods relating to the application of interest rate, nothing that it is essential to obtain the customer's approval in this regard, without violating the Central Bank of Kuwait's Board of Directors resolution concerning the setting of maximum limits for contractual interest rates. And which shall be valid at the time of signing the credit facilities contract.

Banks are required to execute these instructions effective this date, upon granting, renewing or rescheduling any loans or credit facilities for customers. As for existing loans and credit facilities agreements, their applicable interest rates may not be increased throughout duration of such agreements, unless they include the option of a variable interest rate, in which case the interest rate shall be modified upward or downward in line with the interest rate prevailing in the market.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

* Circulated to all local banks.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

L) Instructions regarding the fixing of interest rate on credit facilities in the borrowing agreements concluded with customers.

THE MANAGER

*Sha'ban 7, 1422 H
October 23, 2001*

The General Manager,

Circular to All Local Banks

With reference to our letter dated 28/2/1999, which in turn refers to the Central Bank of Kuwait instructions No. (2/BS/27/1997) of 26/5/1997, and instructions No. (2/BS/69/1999) of 8/2/1999, concerning credit facilities extended by banks for financing trading in securities at the Kuwait Stock Exchange.

And whereas the above instructions require banks to provide the Central Bank of Kuwait, on a weekly basis, with detailed data on credit facilities granted for financing trading in Kuwait Stock Exchange listed securities, using the form attached to our above mentioned letter.

Your bank is requested to present the above mentioned data, on a monthly instead of a weekly basis, as of 31/10/2001.

Best Regards,

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

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

M) Circular requiring banks to provide the Central Bank of Kuwait with detailed data on credit facilities extended for the purposes of financing trading in shares in the Kuwait Stock Exchange, on a monthly instead of weekly basis.

GOVERNOR

*Ramadhan 28, 1423 H
December 03, 2002*

The Chairman,

Circular to All Local Banks

With reference to the Item (D/5) of the instructions (BSB/105/93) issued by the Central Bank of Kuwait on 28/12/1993 regarding the rationalization of credit policy of local banks, which provides for the necessity to study the purpose for which a credit facility is requested, so as to ensure that the facility fits in terms of its type, volume and currency, the declared purpose for its extension.

In light of the noticed increase in the volume of credit facilities extended to resident customers in foreign currency at most local banks during the elapsed ten months of year 2002, we confirm the obligation on banks to very thoroughly abide by the mentioned instructions, by studying the purpose of credit facilities extended to customers, particularly the facilities extended in foreign currency, along with following up the customers abidance by the purposes for which these facilities were extended. That study shall encompass assessing the need for foreign currencies requested by the customer to finance its activity, and the actual use of that financing, in addition to the necessity for local banks to ensure the availability of sources of repayment in these currencies, as that matter was previously emphasized in our letter dated 14/11/1999.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

N) Circular concerning the obligation on banks to very thoroughly study the purpose of credit facilities provided to customers on extending these facilities, particularly the facilities extended in foreign currency, along with following up their use by customers for the purposes they were extended for.

DEPUTY GOVERNOR

Rabi Al-Awal 13,1424 H
14 May, 2003

THE CHAIRMAN,

Circular to all local banks concerning credit facilities extended to finance the execution of works and projects outside the state of Kuwait

In the light of the current regional developments and the consequent potential opportunities for the Kuwaiti banking and financial system to have a role in executing works and projects outside the State of Kuwait through extending the required finance to resident and non-resident customers, the Central Bank of Kuwait would like to stress the following:

- 1– Given the fact that the contracts of those projects and works to be executed abroad will be in foreign currencies, it is natural for the finance extended for this purpose to be in the same foreign currencies of such contracts.
- 2– The credit facilities that local banks may extend in Kuwaiti Dinar to non-residents **must be confined to those extended to finance Kuwaiti Dinar-denominated contracts awarded by government entities in the State of Kuwait**, while observing the terms and controls included in Central Bank's relevant instructions of 2/5/1995.
- 3– When extending credit facilities to their resident and non-resident customers for executing works and projects outside Kuwait, local banks will have to comply with the minimum limits established under Central Bank's instructions No. (BSB/105/1993) concerning the Rationalization and Organization of Banks' Credit Policy, as well as the circulars issued in this regard. Relevant in this connection are the following:
 - a) It is important to comply with the sound bases for credit extension, particularly in relation to identifying the purpose of the credit, ensuring the consistency of the credit type, size and currency with the actual needs of the customer and with the limits of the financed contract, as well as following-up the actual use of the credit for the purpose it was extended for.

In general, an integrated credit study must be conducted on the feasibility of the requested credit, taking into account the soundness of the customer's financial position, the availability of repayment sources, the collateral submitted, and other considerations.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

O) Circular concerning credit facilities extended to finance the execution of works and projects outside the state of Kuwait.

- b) Banks should minimize the credit risks they may be exposed to through distributing credit risks on a wide customer base, diversifying the credit facilities portfolio and distributing it across various sectors of the economy, and establishing maximum limits for risks associated with foreign credit, taking into account the nature of country risks.

It is an already established requirement that the bank must periodically review its credit policy and introduce appropriate amendments thereto, particularly in regard to applied limits and delegated authorities, all within the strategic direction of the bank and the current developments.

It is also noteworthy in this regard that the credit approval decision is the responsibility of the respective bank, who bears any risks that may rise for according credits. The bank must also observe the other regulatory controls issued by the Central Bank such as, but not limited to: capital adequacy ratio and credit concentration limits.

With my best Wishes,

The Deputy Governor
Dr. Nabeel Ahmed Al-Manna'e

DEPUTY GOVERNOR

Jumada Aloula 03, 1425 H
July 15, 2004

The Chairman,

Reference to our meeting with you regarding the necessary actions to be taken by your bank, ensuring that the ratio of credit facilities portfolio will not exceed 80%⁽¹⁾ of the deposits balances.

We advise you that your bank has to commit itself to not exceed⁽²⁾⁽³⁾ the maximum limit for that ratio, while ensuring that you provide us, on a monthly basis with effect from the end of June 2004, with the attached report within three working days from end of each month⁽⁴⁾.

With my best Wishes,

The Deputy Governor
Dr. Nabeel Ahmed Al-Manna'e

⁽¹⁾ The maximum was increased to 85% according to circular No. (2/BS,IBS/224/2008) dated 8/10/2008 and included in this section under Item (R).

⁽²⁾ The method of calculating this ratio was amended according to circular No. (22/BS,IBS/211/2007) dated 8/10/2007 and included in this section under Item (Q).

⁽³⁾ Some amendments have been incorporated to the mentioned ratio as per circular No. (2/BS,IBS/272/2011) dated 10/5/2011 and included in this section under Item (AA).

⁽⁴⁾ These instructions have been abolished and new instructions were introduced for the maximum limit of finance from the end of the transition period on 10.5.2012 to be applicable from 11.5.2012 as per the circular No. (2/BS/IBS/183/2012) dated 8/5/2012 included in this section under Item (CC).

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

P) Instructions stipulating that the ratio of the balances of credit facilities portfolio should not exceed 80% of the deposit balances

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

Net Credit Facilities To Deposits ratio *
As Of End Of / /

Bank : -----

Statement	K.D. 000's
Credit Facilities Portfolio: <ul style="list-style-type: none">- Customers **- Financial Institutions **	
1. Total Credit Facilities	
2. Available Provisions	
3. Net Credit Facilities (After Provisions)	
Deposits: <ul style="list-style-type: none">- Private Deposits**- Government Deposits**- Financial Institutions Deposits**	
4. Total Deposits	
5. Net credit facilities, including financial institutions, (after provisions) to deposits including financial institutions (3/4)	

* To replace the report provided to us pursuant to the circular dated 17/2/2004

** These items should match the corresponding items in the B.S's data

THE GOVERNOR

*Ramadhan 26, 1428 H
October 08, 2007*

THE CHAIRMAN,

Circular No. (2/BS, IBS/211/2007) to all Local Banks

This refers to the instructions issued to conventional banks dated 15/7/2004 and Islamic Shaira'-compliant banks dated 11/11/2004, stressing that the ratio of the balances of credit facilities/finance portfolio should not exceed 80%^{(1) (2)} of the deposits balances, which statements are forwarded to the Central Bank of Kuwait on a monthly basis, on the form prepared for this purpose.

We would like to advise you that your bank should compute the said ratio effective the end of October 2007 on the basis of daily average balances during the month, and not on the basis of balances at the end of the month for which the ratio is prepared.

Statements of the said ratio should be forwarded to us, as per the attached form, on a **monthly basis**, no later than 3 business days from the end of the month for which the statement is prepared. The relevant **quarterly statements should be audited by your bank's external auditors**⁽³⁾.

In case your concerned officers have any queries, they can contact Off-Site Supervision Department on 22972840, and 22972152.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

⁽¹⁾ The maximum was increased to 85% according to circular No. (2/BS,IBS/224/2008) dated 8/10/2008 and included in this section under Item (R).

⁽²⁾ Some amendments have been incorporated to the mentioned ratio as per circular No. (2/BS,IBS/272/2011) dated 10/5/2011 and included in this section under Item (AA).

⁽³⁾ These instructions have been abolished and new instructions were introduced for the maximum limit of finance from the end of the transition period on 10.5.2012 to be applicable from 11.5.2012 as per the circular No. (2/BS/IBS/183/2012) dated 8/5/2012 included in this section under Item (CC).

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

Q) Circular No. (2/BS, IBS/211/2007) concerning the amendment of the method of calculating the ratio of credit facilities portfolio balances at 80% of the deposits balances.

(Form used by conventional banks)

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

Ratio of Net Credit Facilities Portfolio to Deposits*
For the month of / /

Bank: -----

Description	K.D. 000's
Credit facilities portfolio	
- Customers	
- Financial institutions	
1) Total credit facilities portfolio	
2) Available provisions	
3) Net credit facilities portfolio (1-2)	
Deposits:	
- Private deposits	
- Government deposits	
- Financial institutions' deposits	
4) Total deposits	
5) Ratio (3/4)	

* Ratio is calculated on the basis of the average daily balances in terms of both the numerator and the denominator.

(Form used by Islamic Banks)

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

Ratio of Net Credit Facilities Portfolio to Deposits*
For the month of / /

Bank: -----

Description	K.D. 000's
Finance portfolio	
a) Investment and Finance Transactions for Customers (Item Q of the Financial Statement Position)	
b) Investment Placements with Financial Institutions (other than banks) (Item O/2/B and C)	
1) Total Finance Portfolio (a+b)	
Deduct:	
a) Available Specific and General Provisions (other than those related to banks) (Item H/1/A,B)	
b) Deferred Income (Under Other Liabilities, item I)	
2) Total (a + b)	
3) Net Finance Portfolio (1-2)	
Deposits:	
a) Government Deposits (Item c)	
b) Private Sector Deposits (Item d)	
c) Financial Institutions' Deposits (Item b/1/b,c and 2/b,c)	
d) Other Deposits (Item e)	
4) Total Deposits	
5) Ratio (3/4)	

* Ratio is calculated on the basis of the average daily balances in terms of both the numerator and the denominator.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

Q) Circular No. (2/BS, IBS/211/2007) concerning the amendment of the method of calculating the ratio of credit facilities portfolio balances at 80% of the deposits balances.

GOVERNOR

*Shawwal 9, 1429 H
October 8, 2008*

THE CHAIRMAN,

**Circular No. (2/BS,IBS/224/2008)
to all local banks**

This has reference to the instructions to conventional banks dated 15/7/2004, and to Islamic Shari'a-compliant banks dated 11/11/2004, as amended on 8/10/2007, ruling that the average daily balances of credit facilities/finance portfolio should not exceed 80%⁽¹⁾ of the average daily balances of deposits during the month for which the ratio is prepared.

I would like to advise you that the Board of Directors of the Central Bank of Kuwait resolved, at its meeting held on 8/10/2008, to increase the maximum limit prescribed for the above ratio to 85%⁽²⁾ ⁽³⁾.

Your bank should, with effect from the October 2008 statements, observe the above while preparing the monthly statements submitted to the Central Bank of Kuwait on the above ratio⁽⁴⁾.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

⁽¹⁾ According to the circular dated 19/10/2008, included under Item "S" of this section regarding banks' financial deals with investment companies, banks should consider the fact that the lending area for banks has been expanded as a result of raising the maximum limit of loans to deposits ratio from 80% to 85%.

⁽²⁾ According to the circular dated 17/11/2008, included under Item "V" of this section, the Central Bank of Kuwait Board of Directors resolution provided, within implementing the program for rectifying the conditions of local investment companies, that the finance granted to investment companies will be excluded from the numerator of this ratio, while the deposits of government and semi-government institutions will be excluded from the denominator of this ratio.

⁽³⁾ Some amendments have been incorporated to the mentioned ratio as per circular No. (2/BS,IBS/272/2011) dated 10/5/2011 and included in this section under Item (AA).

⁽⁴⁾ These instructions have been abolished and new instructions were introduced for the maximum limit of finance from the end of the transition period on 10.5.2012 to be applicable from 11.5.2012 as per the circular No. (2/BS/IBS/183/2012) dated 8/5/2012 included in this section under Item (CC).

GOVERNER

*Shawwal 20, 1429 H
October 19, 2008*

THE CHAIRMAN,

**Circular No. (2/BS,IBS/227/2008)
Circular to all local banks**

This is made in reference to the meeting held at to the Central Bank of Kuwait premises on 15/10/2008 with Chairmen of banks, during which the banks' financial dealings with investment companies were discussed.

We would like to emphasize certain practical aspects of banks' operations, which were discussed during the meeting, and give directives in this regard, as follows:

1. Banks should ensure that the current credit lines granted to investment companies are not cut. These facilities should be renewed for adequate periods, while providing the necessary additional finance to the deserving companies, based on the credit studies conducted by banks.
2. Banks may not sell shares pledged with them against loans and facilities granted to customers, including investment companies. The nature of the current circumstances and measures adopted by the government and to the Central Bank of Kuwait to minimize the implications of the global crisis for the conditions of the local market should be taken into consideration. Deposits by to the Central Bank of Kuwait and other government bodies with the bank that sells any shares pledged therewith shall be suspended. Banks should provide to the Central Bank of Kuwait with a daily statement, showing the outcome of the sale of any shares pledged therewith⁽¹⁾, starting from 25/9/2008. The statement should show the daily value of the sold shares.

(1) Circulars concerning the regular submission of this statement have been issued on 25/1/201, 22/10/2013 and 1/5/2014, as included in Chapter THREE of this Manual relating to Data and Statistics provided by Local Banks to CBK on a regular basis.

3. Banks should observe that the set of resolutions issued by to the Central Bank of Kuwait on 8/10/2008 are reflected on the dealings of these banks with customers. These include that banks should proceed on reducing the interest rate on loans to customers, including investment companies, in light of reducing the discount rate by 1.25%. Furthermore, banks should also consider expanding the area of lending for banks as a result of increasing the maximum loan/deposit ratio from 80% to 85%, as well as increasing the growth rate in bank credit, in addition to allowing banks to include real estate properties among the credit risk mitigation tools.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

GOVERNOR

*Thul-Qi'da 8, 1429 H
November 6, 2008*

THE CHAIRMAN,

Circular to all Kuwaiti banks⁽¹⁾

In line with the coordination made with Kuwaiti banks through Kuwait Banking Association (KBA) with regard to the local investment companies' support program, and the conclusion reached in this respect that Kuwaiti banks should provide these companies with finance, attached herewith are the general principles to be observed when local banks grant the finance required to rectify the conditions of the local investment companies.⁽²⁾

Your bank should advise the Central Bank of Kuwait of any conclusions reached with regard to rectifying the position of each investment company in this respect, through providing us with the timeframe for granting finance to each investment company. Your bank should also provide us with weekly statements on these transactions, as per the two forms attached hereto.

Central Bank of Kuwait hereby stresses that it is essential to treat these principles with due confidentiality, and to limit their circulation to your bank's concerned staff.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

(1) Some exemptions from the regulatory ratios prescribed for Kuwaiti banks participating in the implementation of the Investment Companies Remedial Program have been approved as per the circular dated 17/11/2008, as included in this section under Item (V).

(2) Finance extended to investment companies under the Investment Companies Remedial Program and deposits of the government and semi-government authorities and entities under the same program have been excluded from the maximum limit for finance as per the circular No. (2/BS, IBS/283/2012) dated 8/5/2012, as included in this section under Item (CC).

**General Principles for Granting by Kuwaiti Banks the Finance
Required for Rectifying of the Conditions
Of Local Investment Companies**

- 1) Kuwaiti banks shall provide the finance necessary to rectify the liquidity problems facing the investment companies with good credit net worth.
- 2) The bank with the largest debt due from the company, or the next bank, shall take over as the Manager Bank of the finance granted to the company. Granting of the finance shall be made with the participation of all creditor Kuwaiti banks, and other Kuwaiti banks willing to participate.
- 3) The finance shall be used for settling the company's existing liabilities to foreign banks and financial institutions. This excludes the existing liabilities of their subsidiaries, followed by the liabilities of the company to local mutual funds. Payment to creditors shall be made directly by the Manager Bank.
- 4) Finance shall be made against sufficient collaterals of good quality, acceptable to the Manager Bank, taking into account the company's cash inflows.
- 5) The investment companies willing to obtain the finance shall provide all data and information as required by the Manager Bank.
- 6) The Company and the Manager Bank shall negotiate with foreign banks and financial institutions to reach a proper settlement.
- 7) Throughout the finance period, investment companies shall not borrow from any other party, nor shall they pledge any of their freehold (non-pledged) assets, unless upon obtaining the Manager Bank's written consent.

6/11/2008

**Finance granted by Kuwaiti banks within the framework
of the program for rectifying the conditions of investment companies
As at / /**

Name of Bank:

K.D. 000's

[illegible]

General Manager

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

T) Circular on the general rules to be followed when banks extend the finance required for rectifying the conditions of local investment companies, under the local investment companies support program.

**Deposits of Government and Semi-Government Institutions
Under the Program of Rectifying Investment Companies' Conditions
As at / /**

Name of Bank:

K.D. 000's

[illegible]

General Manager

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

T) Circular on the general rules to be followed when banks extend the finance required for rectifying the conditions of local investment companies, under the local investment companies support program.

THE GOVERNER

*Thul-Qi'da 11, 1429 H
November 09, 2008*

The Chairman,

Circular No. (2/BS/230/2008) to all Local Conventional Banks

This has reference to the meeting held on 15/10/2008 at the Central Bank of Kuwait Headquarters with banks' Chairmen, and to the circular dated 19/10/2008, emphasizing certain aspects on which directives were given during the meeting, including a directive to banks to observe the Central Bank of Kuwait decision on reducing discount rate in banks' dealings with customers, through reduction by banks of interest rate on loans to customers, including investment companies.

We would like to advise you that the Central Bank of Kuwait has noticed that certain banks have lately started to increase the interest rates on loans granted to some of their customers, or failed to reduce interest rates on customer loans, considering that the interest rates applied to those loans and facilities are still within the maximum limits of interest rate, as determined by the resolutions on interest rate structure issued in this concern.

The Central Bank of Kuwait would also like to stress that banks should take into consideration the nature of the current stage, and the actions taken by the Central Bank of Kuwait and other government bodies to confront the implications of the global financial crisis for the country's financial and economic condition. These include the Central Bank of Kuwait resolutions on reducing the discount rates, whereby banks should make parallel reductions in loan interest rates.

In light of the above, the Central Bank of Kuwait hopes that banks will take into consideration the Central Bank of Kuwait course of action and objectives aimed at through reducing the discount rates, and will reduce interest rates on loans and facilities, bearing in mind the fact that the interest rate ceiling for loans represents the maximum limits that can be applied in the light of the degree of customers' credit risk.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

U) Circular No. (2/BS/230/2008) to all conventional banks concerning the emphasis of the requirement of reducing interest rates on loans in line with the reduction of the discount rate.

THE GOVERNOR

Thul-Qi'da 19, 1429 H
November 17, 2008

The Chairman,

Circular to all Kuwaiti banks

This is made in reference to the circular dated 6/11/2008 regarding the Local Investment Companies Remedial Program, through granting finance by Kuwaiti banks to the local investment companies with good net worth, but facing liquidity problems, and whereby such finance has to be granted in accordance with the general principles attached to the above-mentioned circular.

We would like to advise you that the Board of Directors of the Central Bank of Kuwait, at its meeting held on 16/11/2008, approved the report on the following exemptions from the regulatory ratios prescribed for Kuwaiti banks participating in the implementation of the Investment Companies Remedial Program, until the program is finalized:

1. Exclusion of the finance provided, after the date of this letter, to local investment companies, within the framework of rectifying their conditions, from the numerator of the ratio of credit facilities (investment and financing transactions with customers) to deposits, while excluding the deposits of the government and semi-government institutions and authorities, provided within the framework of this program, from the ratio denominator.
2. Exclusion of the new finance provided to investment companies within the framework of the Local Investment Companies Remedial Program from computation of the growth rate determined for the credit (finance) portfolio.
3. Exemption from setting aside the general provision (by 1%) for the new finance provided to the investment companies within the framework of the Local Investment Companies Remedial Program.

As for the limits prescribed under the credit (financing) concentration instructions [single customer concentration limit, large concentrations limit], banks should follow the procedures prescribed under the instructions which stipulated that it is essential to obtain the prior approval of the Central Bank of Kuwait of the excess cases, as these will be considered on a case-by-case basis.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

V) Circular concerning the resolution to grant exemptions on some regulatory ratios within the framework of extending the finance required to rectify the conditions of the local investment companies.

In this context, banks should observe the general principles with regard to Kuwaiti banks' participation in providing companies with finance.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

THEGOVERNER

*Thul-Hijja 03, 1429 H
December 01, 2008*

THE CHAIRMAN,

Circular No. (2/BS/233/2008) to all local Banks

This has reference to the meeting held at the Central Bank of Kuwait premises on 18/11/2008 with the Chairmen of banks, during which banks were directed to enhance the collaterals submitted by customers against the credit facilities/financing transactions.

The Central Bank of Kuwait would like to reiterate its directives given during the above meeting in that banks should, quietly and rapidly, communicate with those customers, urging them to submit the collaterals or enhance the existing collaterals, irrespective of the soundness of the financial positions of those customers, or the regularity of their credit facilities.

This is based on the fact that these collaterals are necessary for improving the quality of the loans portfolio and financing transactions. It should also be made clear to the customers that requesting these collaterals does not mean a stricter lending policy in banks, but comes within the framework of the sound business flow in the banking system, leading to stronger banking relations between banks and their customers.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

GOVERNER

*Thu Al-Hijja 17, 1429 H
December 15, 2008*

THE CHAIRMAN,

**Circular No. (2/BS, IBS/235/2008)
To all Local Banks**

Within the framework of auditing the banks' financial statements, your bank should assign your external auditors to conduct a special audit on the bank's business in the area of financial derivatives for its own account and for customers' account. The audit should cover the assessment of internal controls of this activity, in terms of sufficiency and effectiveness of these controls, limits of risk that the bank may be exposed to, and the results of the existing status of these transactions, as of end of December 2008.

Your bank should provide us with the external auditors' report on the above activity attached to your audited annual financial statements. Any delay in submitting the above report will cause delay of approving your bank's annual financial statements.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

X) Circular No. (2/BS, IBS /235/2008) requesting local banks to engage external auditors for carrying out a special audit on the banks' derivatives deals activity, and to submit the external auditors' report along with the audited annual financial statements.

GOVERNER

*Thu Al-Hijja 17, 1429 H
December 15, 2008*

THE CHAIRMAN,

**Circular No. (2/BS/236/2008)
To All Conventional Banks**

This has reference to the meeting held at the Central Bank of Kuwait premises on 15/10/2008 with the Chairmen of banks, and to the circular to all local banks dated 19/10/2008, reiterating the Central Bank of Kuwait directives made during the meeting, that the set of resolutions adopted by the Central Bank of Kuwait on 8/10/2008 should be reflected on bank's dealings with customers, **including reduction by banks of loan interest rate in light of reducing the discount rate by 1.25%.**

This is also made further to the Central Bank of Kuwait circular to conventional banks dated 9/11/2008, reiterating the requirement of reducing interest rate on loans, as the Central Bank of Kuwait noticed that certain banks failed to respond to the discount rate reduction resolution.

Therefore, we would like to advise you that the Central Bank of Kuwait still receives customers' complaints, revealing that certain banks failed to make the required interest rate reduction on loans, in compliance with the Central Bank of Kuwait resolution to reduce the discount rate.

It is obvious that the reduction of interest rate on loans is offset by a reduction in the cost of funds for these banks, through a corresponding reduction in interest rates on customer deposits. Therefore, the Central Bank of Kuwait would like to re-iterate that banks should make the required reduction in loan interest rates, in compliance with the Central Bank of Kuwait resolution on reducing the discount rate with effect from 8/10/2008.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

Y) Circular No. (2/BS/236/2008) stressing the requirement to reduce interest rates on loans, in line with the Central Bank of Kuwait's resolution to reduce the discount rate with effect of 8/10/2008.

GOVERNOR

*Safar 10, 1430 H
February 5, 2009*

THE CHAIRMAN,

**Circular No. (2/BS/238/2009)
To All Conventional Banks**

Within the framework of the Central Bank of Kuwait's follow-up of the impact of changes in the discount rate announced by the Central Bank of Kuwait, it was noticed that banks, throughout the periods of upward trend in discount rate, were applying floating interest rates on loans granted to customers, allowing banks to increase interest rate on those loans, concurrently with any subsequent increases in the discount rate.

Contrary to the above, it was also noticed that banks, during the periods of downward trend in the discount rate, were applying fixed interest rates on the loans granted to customers, preventing those customers from benefiting from any subsequent reduction of the discount rate over the validity period of the agreements relating to those loans.

As such variance in the banks' policies with regard to the applications of loan interest rates has negative implications on the bank's relations with their customers, including customers' complaints against banks, therefore, with the exception of consumer and installment (housing) loans, for which the Central Bank of Kuwait's instructions dated 24/3/2008 specified the mechanism of interest rate determination, banks should:

1. Obtain customer's signature on a special declaration, accepting the mechanism of interest rate on loans and facilities, whether fixed or floating. Attached is the customer declaration form, which should be used by banks in this respect.
2. Explain to their customers the effects that may arise in the event of selecting either the fixed or floating interest rate, which should be clear to the customer before signing the agreement and the declaration accepting the interest rate to be applied.

With my best Wishes,

**The Governor
Salem Abdul-Aziz Al-Sabah**

Safar 10, 1430 H
February 5, 2009

Declaration

I, the undersigned, hereby declare that I have reviewed the loan/facilities agreements made with your bank, and have read all their terms and conditions. I hereby agree to be granted these facilities at a fixed/floating interest rate, as stated in the agreements.

I also declare that your bank had explained to me, in due diligence, the effects arising from the application of a fixed/floating interest rate, as follows:

- 1- **In the event of fixed interest rate**, I will not benefit from any subsequent reduction in the interest rate, during the validity of the above-mentioned agreement(s). The bank also shall not increase the interest rate in case of any subsequent increase of the interest rates.
- 2- **In the event of floating interest rate**, your bank may increase the interest rate on the above-mentioned loans/facilities during the validity of the agreement in case of any subsequent increase in the interest rates. Interest rate on those loans/facilities will also be reduced in the event of any subsequent reduction in the interest rate.

And this declaration by me,,,

Name & Signature

Civil ID

GOVERNOR

Rabi'ul Awwal 12, 1429 H
March 9, 2009

THE CHAIRMAN,

Circular No. (2/BS, IBS/239/2009)
to all local banks

Within the framework of the regulatory procedures exercised by the Central Bank of Kuwait through on-site and off-site supervision, the Central Bank of Kuwait noticed that certain local banks grant their corporate customers credit and finance facilities to be used for purposes unauthorized under their memoranda and articles of association. Some of those customers are granted credit facilities in currencies that do not match the nature of the customer's business and cash flows, to be used for fulfilling such obligations. In addition, some banks grant loans to those customers, but are not used by them for the purpose of granting the loans.

Such credit and finance decisions made by banks, and their procedures in this respect, are in violation of the Central Bank of Kuwait's instructions regarding rationalization of credit and finance policy of those banks.

Therefore, the Central Bank of Kuwait hereby stresses that banks must not grant any loans or finance to their corporate customers to be used for purposes unauthorized under their memoranda and articles of association. Also, The currency of granted facilities should match the nature of the financed business, and its cash flows which will be used for repaying those facilities.

Banks should also specify this purpose in the facilities agreements made with customers in this respect. They should also ensure that the loans and finance to their customers are used for the purpose they were granted for.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

AA) Circular No. (2/BS, IBS/239/2009) stressing that banks may not extend finance to institutions and companies for the purpose of using it in financing activities that are not authorized under their memorandum or articles of associations.

GOVERNER

*Thul-Qi'da 27, 1430 H
November 15, 2009*

THE CHAIRMAN,

Circular No. (2/BS, IBS/252/2009)
To All Local Banks

In line with the audit of the banks' annual financial statements, your bank should assign its external auditors to conduct an audit on the bank's derivatives activities for its own and customers' account. The audit should cover assessment of the internal controls over this activity in terms of adequacy and effectiveness of those controls, limits of risks that the bank may be exposed to, and results of the current position of such transactions as at the end of December 2009, in addition to the aspects of development in the adequacy and effectiveness of the internal controls to carry out the activity, compared to the observations in this respect, as contained in the bank's external auditors' report for end of December 2008.

Your bank should also provide us with the external auditors' report on the above activity, accompanied by the audited annual financial statements¹, noting that any delay in submission of the above report shall result in delayed approval of your bank's annual financial statements.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

¹ Contents of the report to be submitted are cleared up as per the circular No. (2/BD, IBS/281/2012) dated 22/2/2012, as included in this section under Item (BB).

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

BB) Circular No. (2/BS,IBS/252/2009) requesting banks to assign their external auditors to carry out a special audit on the bank's activities in the area of dealing in derivatives, and to submit the external auditors report along with the audited annual financial data as at 31 December 2009, compared to the auditors comments included in their report as at the end of December 2008.

THE GOVERNER

*Jumada Alakhira 07, 1432 H
May 10, 2011*

The Chairman,

Circular No. (2/BS, IBS/272/2011) to All Local Banks

Within the procedures taken by the Central Bank of Kuwait to broaden the lending capacity for local banks along with improving the matches between the maturity of credit facilities portfolio (finance operations) and deposits at banks and in light of the meeting held on 28/3/2011 with some representatives of the local banks in which proposed amendments were discussed for introducing them to the instructions for the ratio of credit facilities to deposits;

We advise you that CBK board of directors decided in its meeting held on 9/5/2011 to introduce some amendments to the ratio mentioned above. These amendments are as follows:

1. Expanding the base of the existing items for finance resources on which the maximum lending amount is computed by adding new items to these finance resources represented in the issued bonds (Sukuk), medium and long term loans (finance operations), issued deposit certificates and deposits from banks so that the financing resources items on which the lending maximum amount are as follows:
 - Private Sector deposits;
 - Government deposits;
 - Financial institutions deposits;
 - Issued bonds (Sukuk);
 - Medium and long term loans (finance operations);
 - Issued deposit certificates and
 - Deposits from banks.
2. The maximum limit of the lending amount from the deposit balances and financial instruments referred to above shall be according to residual period for maturity and as per the ratios demonstrated in the following table:

Deposits and financial instruments balances permitted for lending	Maximum lending limit
Up to 3 months to maturity	75%
Above 3 months but up to one year to maturity	90%
Above one year to maturity	100%

The bank shall comply with the maximum lending amount on daily and continuous basis.

3. Based on the abovementioned amendments, the lending span available for from the various financing resources at banks shall be in the form fixed amount representing a lending ceiling for each bank rather than a maximum percentage of the total financing resources 85% where the fixed amount represents the total lending percentage of each financing resources.
4. As discussed with banks representatives in the said meeting, CBK would like to emphasize that the increase in financing resources on which the maximum lending amount is to be computed shall represent real transactions with the aim of enhancing the stability factor of these resources for the aim of expanding the lending capacity. CBK shall verify the extent of the existence of these transactions.

These amended instructions shall be initially applied during a transitional period of one year starting from 10/5/2011 in parallel with the existing instructions (Parallel Run). Your bank shall provide CBK during the transitional period with the monthly statements for the ratio of the credit facilities portfolio (finance) to the deposits as per both the outstanding instructions and the amended instructions (attached two forms of the amended instructions).

The instructions in final form shall be issued after the end of the transitional period referred to and after perusal of the outcome of the trial application.

With my best Wishes,

The Governor
Salem Abdul-Aziz Al-Sabah

DEPUTY GOVERNER

*Rabie Al-Awwal 30, 1433 H
February 22, 2012*

THE CHAIRMAN,

Circular No. (2/BS, IBS/281/2012)
To All Kuwaiti Banks

We refer to external auditor's report on auditing the bank dealings on financial derivatives for the bank account and for the accounts of its customers annually submitted by the bank accompanied by the closing financial statements.

We would like to inform you that within CBK procedures to enhance supervision on the activity of financial derivatives and to ensure that banks abstain from any speculation activities, it is necessary that:

1. Local banks continue submitting external auditors report on auditing the bank business in dealing on financial derivatives for the bank account and for accounts of its customers. The report covers assessment of internal controls of this business in respect of the sufficiency and effectiveness of such controls, the extent of risks to which the bank may be exposed and the results of the outstanding position of these transactions as at the end of December each year compared to the previous year report in addition to demonstrating aspects of development in the sufficiency and effectiveness of internal controls for practicing this activity;
2. Banks shall, with effect from the beginning of 2012, provide CBK at the end of June each year with a letter signed by the chairman of the board of directors and the chief executive officer or managing director including a statement of the bank dealings in financial derivatives, the extent of the risks to which the bank may be exposed based on the results of the outstanding position, demonstrating the procedures taken by the bank in response to the comments of the auditors and rectifying any shortfalls in the bank's business systems on financial derivatives that have been found out by auditors. Banks shall ensure that effective internal controls are in place for bank dealings in derivatives and provide CBK with this letter not later than 15 business days from the end of the said period;

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

DD) Circular No. (2/BS, IBS/281/2012) to all Kuwaiti banks regarding submission of their external auditors' report on auditing the banks' activities in dealing on financial derivatives for their own account and for their customers' accounts, on a semiannual basis, along with assurance of the nature of activity practiced by banks in this respect.

3. Banks dealing in financial derivatives shall consider the content confirmed in their letters sent to CBK in September 2011 in respect of not carrying out any speculation activity in financial derivatives whether for their accounts or for the accounts of their customers and limit their dealing in ordinary instruments with the aim of hedging and within risk management framework along with having external audit on these instruments and making disclosures thereof;
4. Banks not dealing in financial derivatives shall continue providing CBK with evidence of not undertaking any financial derivatives transactions or otherwise implement these instructions in case they deal in these instruments.

With my best Wishes,

The Deputy Governor
Dr. Mohammad Y. Al-Hashel

THE GOVERNER

*Jumada Alakhira 17, 1433 H
May 08, 2012*

The Chairman,

Circular No. (2/BS, IBS/283/2012) To All Local Banks (Except Industrial Bank Of Kuwait) Concerning The Maximum Limit Of Extending Finance

Reference is made to CBK circular dated 10/5/2011 for amendments to the instructions that the net credit facilities portfolio (finance transactions) shall not exceed 85% of the deposits of private, government and financial institutions initially applied during a transitional period of a year from 10/5/2011 in parallel run with the current instructions in an introductory step for being issued in final form after the elapse of the said transitional period.

We advise you that due to the positive approach demonstrated by the data provided by banks concerning the application of the amended instructions during the transitional period by making available a broader financing capacity along with enhancing the matches between the maturity of assets and liabilities, CBK board of directors in the meeting dated 7/5/2012⁽¹⁾ decided the following:

1. Ceasing the current instructions that the net credit facilities portfolio (finance operations) shall not exceed 85%⁽²⁾ of the deposits of private, government and financial institutions;
2. The amended instructions on the maximum limits for extending finance shall be applicable with effect from the expiry of the transitional period on 10/5/2012 and will be mandatory from 11/5/2012. The Bank shall provide CBK with the monthly statements on the maximum limits of extended finance as per the attached forms within ten business days from the reported month. Please find attached a CD of the said forms to be sent to CBK at SV.FRT@CBK.GOV.KW
3. Excluding finance extended to investment companies under local investment companies reform program, deposits of government authorities and Para government agencies and institutions under that program from the maximum limit of finance extended.

⁽¹⁾ Amendments had been made to instructions pertaining to maximum financing to be extended virtue of Circular No. (2/BS, IBS/365/2016), dated 15/03/2016 and listed as item (GG) of this chapter

⁽²⁾ The maximum limit for financing to be extended was increased to 90% of total financing resources, without implementation of ratios proportioned to maturity, where banks' deposits from financing resources are also excluded, as per Circular No. (2/BS, IBS/365/2016), dated 15/03/2016 and listed as item (GG) of this chapter

CBK emphasizes that the increase in financing resources on which the maximum lending amount is to be computed shall represent real transactions aiming at enhancing the stability of these resources and will not be fake transactions among banks aiming at increasing financial resources to expand finance. CBK shall closely monitor these transactions by onsite and offsite tools.

With my best Wishes,

The Governor
Dr. Mohammad Y. Al-Hashel

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

(Form used for traditional banks)

Table (1)

Maximum limit of financing
on daily basis during the Month

Bank:

Amount in ,000

Statement	Balance on 1/00/20012	Balance on 2/00/20012	Balance on 3/00/20012	Balance on	Balance on	Balance on	Balance at the end of the month
First:: Private deposits:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "First"							
Second: Government deposits:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Second"							
Third: Financial institutions' deposits:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year(90%)							
3. Maturity over a year (100%)							
Total of "Third"							
Fourth: Deposits from banks:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Fourth"							
Fifth: Medium and long term loans:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Fifth"							
Sixth: issued deposit certificates							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "sixth"							
Seventh: issued bonds:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Seventh"							
Eighth: Total of first + second + third + fourth + fifth + sixth + seventh							
Ninth: Net credit facilities portfolio (net of specific and general provisions)							
Tenth: surplus (or excess) = eighth –ninth							

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

EE) Circular No. (2/BS, IBS/283/2012) To all local banks (Except Industrial Bank of Kuwait) concerning the maximum limit of extending finance.

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

(Form used for Islamic banks)

Table (2)

Maximum limit of financing
on daily basis during the Month

Bank:

Amount in ,000

Statement	Balance on 1/00/20012	Balance on 2/00/20012	Balance on 3/00/20012	Balance on	Balance on	Balance on	Balance at the end of the month
First:: Private deposits:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "First"							
Second: Government deposits:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Second"							
Third: Financial institutions' deposits:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Third"							
Fourth: Other deposits:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Fourth"							
Fifth: Deposits from banks:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Fifth"							
Sixth: Medium and long term Finance:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Sixth"							
Seventh: Issued deposit certificates							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Seventh"							
Eighth: Issued Sukuk:							
1. Maturity up to 3 months (75%)							
2. Maturity over 3 months and up to a year (90%)							
3. Maturity over a year (100%)							
Total of "Eighth"							
Ninth: Total of first + second + third + fourth + fifth + sixth + seventh + eighth							
Tenth: Net credit facilities portfolio (net of specific and general provisions)							
Eleventh: Surplus (or excess) = ninth - tenth							

**10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS
CREDIT POLICY.**

EE) Circular No. (2/BS, IBS/283/2012) To all local banks (Except Industrial Bank of Kuwait) concerning the maximum limit of extending finance.

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

(Form used for traditional banks)

Table (2)

Available Fund Resources as on

Bank:

Statement		Outstanding balance At the end of the month	Amount in ,000 Average cost of outstanding balance (%)
First:: Private deposits:			
1. Maturity up to 3 months	Saving and current accounts		
	Short term deposits		
2. Maturity over 3 months and up to a year	Saving and current accounts		
	Short term deposits		
3. Maturity over a year	Saving and current accounts		
	Short term deposits		
Total of "First"		0	00.0%
Second: Government deposits:			
1. Maturity up to 3 months	Saving and current accounts		
	Short term deposits		
2. Maturity over 3 months and up to a year	Saving and current accounts		
	Short term deposits		
3. Maturity over a year	Saving and current accounts		
	Short term deposits		
Total of "Second"		0	00.0%
Third: Financial institutions deposits:			
1. Maturity up to 3 months	Saving and current accounts		
	Short term deposits		
2. Maturity over 3 months and up to a year	Saving and current accounts		
	Short term deposits		
3. Maturity over a year	Saving and current accounts		
	Short term deposits		
Total of "Third"		0	00.0%
Fourth: Deposits from banks:			
1. Maturity up to 3 months	Local		
	Foreign		
2. Maturity over 3 months and up to a year	Local		
	Foreign		
3. Maturity over a year	Local		
	Foreign		
Total of "Fourth"		0	00.0%
Fifth: Medium and long term loans:			
1. Maturity up to 3 months			
2. Maturity over 3 months and up to a year			
3. Maturity over a year			
Total of "Fifth"		0	00.0%
Sixth: Issued deposit certificates			
1. Maturity up to 3 months			
2. Maturity over 3 months and up to a year			
3. Maturity over a year			
Total of "Sixth"		0	00.0%
Seventh: issued bonds:			
1. Maturity up to 3 months			
2. Maturity over 3 months and up to a year			
3. Maturity over a year			
Total of "Seventh"		0	00.0%
Eighth: Total of first + second + third + fourth + fifth + sixth + seventh			

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

EE) Circular No. (2/BS, IBS/283/2012) To all local banks (Except Industrial Bank of Kuwait) concerning the maximum limit of extending finance.

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

(Form used for Islamic banks)

Table (2)

Available Fund Resources as on

Bank:

Amount in ,000

Statement	Outstanding balance At the end of the month	Average cost of outstanding balance (%)	
First:: Private deposits:			
1. Maturity up to 3 months	Saving and current accounts		
	Short term deposits		
2. Maturity over 3 months and up to a year	Saving and current accounts		
	Short term deposits		
3. Maturity over a year	Saving and current accounts		
	Short term deposits		
Total of "First"		0	00.0%
Second: Government deposits:			
1. Maturity up to 3 months	Saving and current accounts		
	Short term deposits		
2. Maturity over 3 months and up to a year	Saving and current accounts		
	Short term deposits		
3. Maturity over a year	Saving and current accounts		
	Short term deposits		
Total of "Second"		0	00.0%
Third: Financial institutions deposits:			
1. Maturity up to 3 months	Saving and current accounts		
	Short term deposits		
2. Maturity over 3 months and up to a year	Saving and current accounts		
	Short term deposits		
3. Maturity over a year	Saving and current accounts		
	Short term deposits		
Total of "Third"		0	00.0%
Fourth: Other deposits:			
1. Maturity up to 3 months	Local		
	Foreign		
2. Maturity over 3 months and up to a year	Local		
	Foreign		
3. Maturity over a year	Local		
	Foreign		
Total of "Fourth"		0	00.0%
Fifth: Deposits from banks:			
1. Maturity up to 3 months	Local		
	Foreign		
2. Maturity over 3 months and up to a year	Local		
	Foreign		
3. Maturity over a year	Local		
	Foreign		
Total of "Fifth"		0	00.0%
Sixth: Medium and long term loans:			
1. Maturity up to 3 months			
2. Maturity over 3 months and up to a year			
3. Maturity over a year			
Total of "Sixth"		0	00.0%
Seventh: Issued deposit certificates			
1. Maturity up to 3 months			
2. Maturity over 3 months and up to a year			
3. Maturity over a year			
Total of "Seventh"		0	00.0%
Eighth: Issued Sukuk:			
1. Maturity up to 3 months			
2. Maturity over 3 months and up to a year			
3. Maturity over a year			
Total of "Eighth"		0	00.0%
Ninth: Total of first + second + third + fourth + fifth + sixth + seventh + eighth			

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

EE) Circular No. (2/BS, IBS/283/2012) To all local banks (Except Industrial Bank of Kuwait) concerning the maximum limit of extending finance.

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

(Form used for traditional banks)

Table (3)

**Maximum limit of financing
For the Month of**

Bank:

Amounts in '000

Date	Maximum Finance limit (1)	Net Finance Facility Portfolio (Net of specific and general provisions) (2)	Surplus (or excess) (3) = (1) – (2)
1/00/2012			0
2/00/2012			0
3/00/2012			0
4/00/2012			0
5/00/2012			0
6/00/2012			0
7/00/2012			0
8/00/2012			0
9/00/2012			0
10/00/2012			0
11/00/2012			0
12/00/2012			0
13/00/2012			0
14/00/2012			0
15/00/2012			0
16/00/2012			0
17/00/2012			0
18/00/2012			0
19/00/2012			0
20/00/2012			0
21/00/2012			0
22/00/2012			0
23/00/2012			0
24/00/2012			0
25/00/2012			0
26/00/2012			0
27/00/2012			0
28/00/2012			0
29/00/2012			0
30/00/2012			0
31/00/2012			0

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

EE) Circular No. (2/BS, IBS/283/2012) To all local banks (Except Industrial Bank of Kuwait) concerning the maximum limit of extending finance.

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

(Form used for Islamic banks)

Table (3)

**Maximum limit of financing
For the Month of**

Bank:

Amounts in '000

Date	Maximum Finance limit (1)	Net Finance Facility Portfolio (Net of specific and general provisions) (2)	Surplus (or excess) (3) = (1) – (2)
1/00/2012			0
2/00/2012			0
3/00/2012			0
4/00/2012			0
5/00/2012			0
6/00/2012			0
7/00/2012			0
8/00/2012			0
9/00/2012			0
10/00/2012			0
11/00/2012			0
12/00/2012			0
13/00/2012			0
14/00/2012			0
15/00/2012			0
16/00/2012			0
17/00/2012			0
18/00/2012			0
19/00/2012			0
20/00/2012			0
21/00/2012			0
22/00/2012			0
23/00/2012			0
24/00/2012			0
25/00/2012			0
26/00/2012			0
27/00/2012			0
28/00/2012			0
29/00/2012			0
30/00/2012			0
31/00/2012			0

**10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS
CREDIT POLICY.**

EE) Circular No. (2/BS, IBS/283/2012) To all local banks (Except Industrial Bank of Kuwait) concerning the maximum limit of extending finance.

GOVERNER

*Muharram 8, 1435 H
November 12, 2013*

THE CHAIRMAN,

**Circular No. (2/ BS, IBS, IS, IIS, FS, IFS/315/2013)
to all banks, investment companies and financing companies
concerning regulations of finance granted to individual customers
for purchase and/ or development of properties located in the private
and prototype housing areas**

We would like to inform you that the CBK Board of Directors has approved, in its meeting held on 12/11/2013, controls and regulations of finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.⁽¹⁾

Kindly find attached a copy of these regulations that your bank/company shall abide from the date hereof in case you wish to practice such type of Finance, provided that the bank/company provides CBK with the approved integrated financing policy approved by the board of directors of the bank/company, in line with the attached regulations prior to practicing this activity.

With my best Wishes,

**The Governor
Dr. Mohammad Y. Al-Hashel**

⁽¹⁾ Circular No. (2/ BS, IBS, IS, IIS, FS, IFS/321/2014) was issued on 20/1/2014 concerning the periodic statements for finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas, as included in this section under Item (GG).

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

FF) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/315/2013) to all banks, investment companies and financing companies concerning regulations of finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.

Instructions concerning Regulations of Finance granted to Individual Customers for Purchase and/ or Development of Properties located in the Private and Prototype Housing Areas

Introduction

In line with the regulatory & supervisory roles of the Central Bank of Kuwait “CBK” on the banking sector pursuant to Law No. 32 of 1968 concerning Currency, Central Bank of Kuwait and Regulation of the Banking Business and amendments thereto, in particular the instructions related to the rationalization of credit policies at banks, investment companies and financing companies and securing the sound conduct of banking business; taking into consideration the important role of finance to the local private housing real estate sector and its direct correlation with the people’s interests, from one side, and importance thereof within the finance portfolio of the banking and financial units, from the other side; in order to ensure that the regulatory and supervisory instructions and regulations reflect the most recent developments in the banking and financial business environment; and consistent with the regional & international best practices for the supervisory standards applicable to this type of finance, CBK board of directors has resolved, in its session held on 12.11.2013, to promulgate these regulations/controls for finance granted to individual customers for purchase and/ or development of real estates located in the private and prototype housing areas.

These regulations, in addition to those applicable to financings granted as per CBK instructions concerning Consumer & Installment Loans (Financing Transactions) constitute an integrated framework that aims to organize financing of the local private housing sector and, hence, mitigate the finance risks at all banks, investment companies, finance companies and individual customers within the Macprudential Policy adopted by CBK with the objective to minimize the systematic risks and their potential adverse economic and social impacts.

Scope of instructions

These instructions shall be applicable to finance extended to natural persons by all local banks, investment companies and finance companies for purchase and/ or development of properties located in the private and prototype or housing areas, and shall not be applicable to financings provided under the instructions of consumer and installment loans (finance transactions).

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

FF) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/315/2013) to all banks, investment companies and financing companies concerning regulations of finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.

Financing Controls

Upon granting finance, the bank/ company must adhere to the following regulations, as a minimum:

- 1) Granting credit shall be based on an integrated credit study that addresses the requirements stipulated under CBK instructions concerning Rationalization of Credit Policy, and in particular the following:
 - The customer's financial position and creditworthiness based on clear policies and procedures constituting the basic factors that determine the customer's creditworthiness and repayment capability;
 - The customer's net cash flows, taking into account any other financial obligations that may affect such cash flows.
 - Studying the impact on the cash flows as a result of stress scenarios and conditions to customer's financial position and impact thereof on his/her ability to repay in a timely manner; and
 - The customer's credit history and his credit statements as per Ci-Net data and Risks Centre System.
- 2) It should be ensured that the customer has sufficient sources of net cash flows other than income from the properties to be financed. **This means that the credit decision should not be based only on the income from properties** and not taking into account the customer's monthly salary in computing the net cash flows.
- 3) The customer must have sources of net cash flows, other than his monthly salary and income from properties to be financed, of not less than 50% of his/her obligations resulting from this finance in the form of installments to serve the debt including the principal amount.
- 4) Verifying the purpose of finance, and that it is granted as per these regulations and used for the intended purpose. In case of real estate development, finance payments should be made in proportion to the progress of the executed works.
- 5) Ratio of finance to value of real estate to be financed or cost of development thereof incase financing construction should not exceed the following:

- Finance to purchase undeveloped land	up to 50%
- Financing an existing property	up to 60%
- Financing construction only	up to 70%

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

FF) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/315/2013) to all banks, investment companies and financing companies concerning regulations of finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.

- 6) Value of the real estate stated in the above item should be based on the purchase price or the real estate evaluation amount whichever is lower, provided that evaluation thereof should be conducted by two independent evaluators not related to any of parties to the transaction. The said evaluators must be competent and registered at evaluators' register with the Ministry of Commerce & Industry. The lower evaluation shall be considered. As for construction costs, these should be estimated by specialized and approved offices in this field.
- 7) The principal amount and interests thereon should be repaid in at least quarterly installments over a period that is appropriate to the purpose of finance up to ten years. In case of real estate development, the said period may involve a grace period up to two years from the grant date provided that the debt is served during such period.
- 8) The following should be considered upon granting this type of finance:
 - The total cost of finance (interest/profit) shall be clear to the customer before granting any finance, and an evidence should be maintained that the customer has been informed of the same.
 - The customer must be informed of the mechanism for determining the interest (profit) rate and the reference prices used, as well as cases where interest (profit) rate may be changed and the limits of such change, and a declaration signed by the customer should be obtained that the customer has been informed of application of fixed or floating interest rates pursuant to the circular issued to traditional banks on 05.02.2009.
 - Finance charges/burdens should be made clear to the customer at different levels of interest (profit) rates of not less than three different scenarios at various upward prices.
 - The customer should be informed of charges and commissions of finance including future charges and commissions.
 - The customer should obtain copies of the contracts of finance.
 - Copies of documentation of the property, including documents of property purchase, payment of its value and commissions related to any other parties, should be maintained.
 - In case of financing real estate development, documents supporting the bases of payments and their relevance to development stages should be maintained.
 - Evidence that the customer has been informed of all the forgoing information and documents stated under this item (8) should be maintained.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

FF) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/315/2013) to all banks, investment companies and financing companies concerning regulations of finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.

- 9) Prior to exercising this activity, an integrated financing policy for this type of finance should be put in place and approved by the Board of Directors. Such policy should address all potential risks and particularly include the necessary controls for measuring and managing these risks and mitigation thereof to the minimum, taking into account provisions stipulations of these instructions.

12.11.2013

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

FF) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/315/2013) to all banks, investment companies and financing companies concerning regulations of finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.

THE GOVERNER

*Rabie Al-Awwal 19, 1435 H
January 20, 2014*

The Chairman,

Circular No. (2/ BS, IBS, IS, IIS, FS, IFS/321/2014) to all banks, investment companies and financing companies concerning the periodic statements for finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas

Reference is made to CBK instructions dated 12/11/2013 concerning the finance controls granted to individual customers for the purpose of purchasing and/ or developing real estate located in the private housing and model Housing areas.

Please note the following:

1. CBK shall be monthly provided with statements of the finance allocated for this purpose as per the two attached tables:⁽¹⁾
 - a. Table for the total finance/loans distributed as per their purposes, and
 - b. Table for the total finance/loans distributed as per balance categories.The bank/company shall send these statements by email and on a CD starting from statements of November 2013 within the time frames stated in the center of Risks statements currently applicable. In case the bank/ the company does not exercise this activity, CBK will be provided with the same tables bearing “Nil Balances”.
2. Some amendments have been made to the statistical data of Traditional Banking System “TBS” and Islamic Banking System “IBS” as per the specifications document on the attached CD. We should be provided with the statistical data as per the amended document with effect from the data for the month November 2013.

With my best Wishes,

**The Governor
Dr. Mohammad Y. Al-Hashel**

** A CD is enclosed for the amendments to the specifications document of IBS.*

⁽¹⁾ Circular No. (2/ BS, IBS, IS, IIS, FS, IFS/333/2014) was issued on 24/4/2014 concerning creation of a new code in the center of risks system under No. 11 in the schedule of finance purposes relating to financing facilities extended to individuals.

Attachment (1)

Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Department
Credit Division

Statement of total finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas by purpose as at/...../..... other than finance addressed for private housing in accordance with CBK instructions regarding consumer and installment loans/finance

Name of Bank/Company:

Amounts in KD ,000

Purpose	No. of customers ¹	No. of Loans/ Finance Transactions	Balance		Debt performance										
					Performing					Non-Performing					
			Zero interest/ profit	with interest/ profit	No. of customers ¹	No. of Loans/ Finances	Balance		Available provisions	No. of customers ¹	No. of Loans/ Finances	Balance		Available specific provisions	
							Zero interest/ profit	With interest/ profit				Zero interest/ profit	With interest/ profit		
Financing a space land															
Financing an existing property															
Financing construction Only															
Total ²			0	0			0	0	0			0	0	0	
Total Number with no recurrence ²		0				0					0				

¹ Number of real customers with no repeating the customer's name even if he/she is granted multiple loans/ finances whether for each purpose in a line by line basis or on total basis, i.e. a customer who obtained multiple loans/finances should not be repeated.

² Totals of attachment (1) match those of attachment (2).

Attachment (2)

Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Department
Credit Division

Statement of total finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas by balance category as at/...../..... other than finance addressed for private housing in accordance with CBK instructions regarding consumer and installment loans/finance

Name of Bank/Company:

Amounts in KD ,000

Tranches	No. of customers ¹	No. of Loans/ Finance Transactions	Balance		Debt performance										
					Performing					Non-Performing					
			Zero interest/ profit	with interest/ profit	No. of customers ¹	No. of Loans/ Finances	Balance		Available provisions	No. of customers ¹	No. of Loans/ Finances	Balance		Available specific provisions	
							Zero interest/ profit	With interest/ profit				Zero interest/profit	With interest/profit		
Up to 100,000															
100,001-150,000															
150,001-250,000															
250,001-500,000															
500,001-750,000															
750,001-1,000,000															
Above 1,000,000															
Total ²			0	0			0	0	0			0	0	0	
Total Number with no recurrence ²		0				0					0				

¹ Number of real customers with no repeating the customer's name even if he/she is granted multiple loans/ finances whether for each purpose in a line by line basis or on total basis, i.e. a customer who obtained multiple loans/finances should not be repeated.

² Totals of attachment (1) match those of attachment (2).

THE MANAGER

*Jumada Alakhira 24, 1435 H
April 24, 2014*

The General Manager,

Circular No. (2/ BS, IBS, IS, IIS, FS, IFS/333/2014) to all banks, investment companies and financing companies concerning the periodic statements for finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas

Reference is made to CBK circular No. (2/BS-IBS-RS-RSA-RT-RTA/321/2014) dated 20/1/2014 concerning the periodic statements that banks, investment and finance companies should provide to CBK on the said finance transactions with effect from November 2013.

Please note that a new code has been created in the center of risks system under No. 11 in the finance purposes schedule. That code will be assigned for finance transactions to individual customers for the purpose of purchasing and/ or developing real estate located in the private housing and model Housing areas. The bank/ company should provide CBK with the required statements as per the newly created code with effect from November 2013 statements in addition to considering the same in facilities/ finance transactions statements as per AM2 form provided online monthly to CBK.

Best Regards,

**Manager, Off-Site Supervision Department
Waleed Mahmoud Al-Awadhi**

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

HH) Circular No. (2/ BS, IBS, IS, IIS, FS, IFS/333/2014) to all banks, investment companies and financing companies concerning the periodic statements for finance granted to individual customers for purchase and/ or development of properties located in the private and prototype housing areas.

THE GOVERNOR

*Jumada Alakhira 06, 1437 H
March 15, 2016*

The Chairman,

Circular No. (2/BS, IBS/365/2016) to All Local Banks (Except Industrial Bank of Kuwait) Concerning the Maximum Limit for Extending Finance

As a part of the CBK's ongoing efforts to review and update the instructions on the banking business controls in line with the international supervision standards and the best practices in the organizational and supervisory field, the CBK's Board of Directors has decided, in its meeting dated March 15th 2016, to introduce amendments to the instructions on the maximum limit for extending finance issued on May 8th 2012 so that the maximum limit for granting finance will be 90% of the total financing sources specified in those previous instructions, without applying different percentages as per maturity periods. In addition, banks' deposits have been excluded from the financing sources for the purpose of calculating the maximum limit available for granting finance.

The introduction of such amendments comes in light of the banking developments witnessed during the recent period including the application of Basel III reforms' package and the accompanying considerations entailing such amendments as follows:

- 1) The exclusion of banks' deposits from the funds sources, according to which the maximum limit of granting finance is calculated, has been introduced taking into consideration the changing nature of such deposits and the impact thereof on their stability level. This approach is in line with the recommendations of the International Monetary Fund (the "IMF") on the exclusion of banks' deposits from such financing sources in light of the short terms and instability of such deposits. Meanwhile, other financing sources available for extending finance have been maintained.
- 2) The Application of the "Net Stable Funding Ratio" (the "NSFR"), which is one of the standards included in Basel III reform packages, approved by the CBK's Board of Directors in its meeting held on October 25th 2015. This NSFR aims at directing banks to enhance their stable funding sources by emphasizing that their available stable funding is sufficient to meet the stable funding required from banks in view of the asset/liability structure of each bank.

These revised instructions should be adopted as of October 2016 on the following three levels:

- The bank and its local branches (the local level). These instructions shall be mandatory for this level.
- The bank, its local and overseas branches (bank level). For this level, the instructions shall be applied for follow-up purposes.
- The bank, its local and overseas branches and subsidiaries (group level). For this level, the instructions shall be applied for follow-up purposes.

Banks shall provide the CBK with monthly data of the maximum limit available for granting finance as per the attached forms, taking into consideration stating the financing sources available for financing as per “Resident” and “Nonresident” sources, within (10) business days from the end of the reporting month to the email address (SV.FRT@CBK.GOV.KW).

In addition, the amended instructions shall be applied for follow-up purposes starting from May to September 2016 in a parallel run with the current instructions “Parallel Run”. During this period, your Bank shall provide us with the monthly data as per the current instructions and as per the amended instructions.

With my best Wishes,

The Governor
Dr. Mohammad Y. Al-Hashel

Central Bank of Kuwait

(Form used for Conventional Banks)

Table No. (1)

Supervision Sector
Off-Site Supervision Department
Off-Site Supervision Section

The maximum Limit available for
extending Finance on a Daily Basis
during the Month of

Bank:

KD Thousands

Description	Balance as at the Beginning of the Month			Balance as at ...			Balance as at			Balance as at the End of the Month		
	Resident	Non-resident	Total	Resident	Non-resident	Total	Resident	Non-resident	Total	Resident	Non-resident	Total
First: Private Deposits												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (First)												
Second: Government Deposits												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Second)												
Third: Financial Institutions' Deposits												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Third)												
Fourth: Medium- and Long-term Loans (with loan maturity not less than three years at grant date)												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Fourth)												
Fifth: Issued Certificates of Deposit												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Fifth)												
Sixth: Issued Bonds												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Sixth)												
Seventh: Grand Total												
Eighth: Net Credit Facilities Portfolio (net of specific and general provisions)												
Ninth: Net Facilities Portfolio to the Sources of Funds Ratio (Eighth/Ninth)												

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

II) Circular No. (2/BS, IBS/365/2016) to all local banks (except Industrial Bank of Kuwait) concerning the maximum limit for extending finance.

Central Bank of Kuwait

(Form used for Islamic Banks)

Table No. (1)

Supervision Sector
Off-Site Supervision Department
Off-Site Supervision Section

The maximum Limit available for
extending Finance on a Daily Basis
during the Month of

Bank:

KD Thousands

Description	Balance as at the Beginning of the Month			Balance as at ...			Balance as at			Balance as at the End of the Month		
	Resident	Non-resident	Total	Resident	Non-resident	Total	Resident	Non-resident	Total	Resident	Non-resident	Total
First: Private Deposits												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (First)												
Second: Government Deposits												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Second)												
Third: Financial Institutions' Deposits												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Third)												
Fourth: Other Deposits												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Fourth)												
Fifth: Medium and Long Term Financing Transactions (with maturity not less than three years at grant date)												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Fifth)												
Sixth: Issued Certificates of Deposit												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Sixth)												
Seventh: Issued Sukuk												
1. with maturity of up to 3 months												
2. with maturity of over 3 months and up to a year												
3. with maturity of over a year												
Total (Seventh)												
Eighth: Grand Total												
Ninth: Net Credit Facilities Portfolio (net of specific and general provisions)												
Tenth: Net Facilities Portfolio to the Sources of Funds Ratio (Ninth/Eighth)												

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

II) Circular No. (2/BS, IBS/365/2016) to all local banks (except Industrial Bank of Kuwait) concerning the maximum limit for extending finance.

THE GOVERNOR

*Ramadhan 06, 1442 H
April 18, 2021*

The Chairman,

**Circular No. (2/BS/IBS/479/2021) to all local Banks
regarding the Controls for implementing the Law No. (2) of 2021
on the Rescue of Small and Medium-Sized Enterprises
Negatively Impacted by COVID-19**

Reference is hereby made to Article (20) of the Law No. (2) of 2021 regarding the Rescue of Small and Medium-Sized Enterprises (SMEs) Negatively Impacted by COVID-19, which states that the Central Bank shall issue the decisions and instructions necessary to implement this law.

Kindly find enclosed herewith the controls to implement the provisions of the aforementioned law, which have been approved by the Central Bank of Kuwait's Board of Directors on 11/04/2021 to be abided by from the date of entry into force of the law.

With my best Wishes,

**The Governor
Dr. Mohammad Yousef Al-Hashel**

**Resolution No. (66/T/2021) Regarding the Controls
for Implementing the Law No. (2) of 2021 on the Rescue of Small
and Medium-Sized Enterprises Negatively Impacted by COVID-19**

The Central Bank of Kuwait

Having perused

- The Law No. 32 of 1968 concerning Currency, the Central Bank of Kuwait and the Regulation of Banking, as amended, and
- Law No. (2) of 2021 on the Rescue of SMEs Negatively Impacted by COVID-19.

And based on the approval of the Central Bank of Kuwait's Board of Directors on 11/04/2021,

Resolved

Article One

The controls for implementing the provisions of the mentioned Law No. (2) of 2021, annexed hereto, hereby come into force and are to be applied accordingly.

Article Two

This Resolution shall be published in the Official Gazette and shall come into force as of the date of its publication.

Regards,

Dr. Mohammad Y. Al-Hashel
The Governor
Chairman of the Board of Directors
of the Central Bank of Kuwait

*Issued on Ramadhan 06, 1442 H
coincided with April 18, 2021*

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

JJ) Circular No. (2/BS, IBS/479/2021) to all local banks regarding the controls for implementing the law No. (2) of 2021 on the rescue of small and medium-sized enterprises negatively impacted by COVID-19

Controls for implementing the Law No. (2) of 2021 on the Rescue of Small and Medium-Sized Enterprises Negatively Impacted by COVID-19

First: Definitions

Article (1)

In the application of these terms and conditions, the following terms and expressions shall have the meanings ascribed to them:

CBK	: Central Bank of Kuwait
Bank(s)	: Local bank(s).
Negatively-impacted Customers	: The small and medium-sized customers, including the owners of emerging enterprises, who were efficiently operating, and whose activity was partially or wholly impacted by the COVID-19 crisis, giving rise to the inability to cover the basic periodic contract expenditures.
Emerging Enterprises	: Small and medium-sized enterprises that have been recently established but did not complete their first fiscal year until the date of entry into force of the Law No. (2) of 2021 mentioned above, in accordance with the provisions of the Law No. (1) of 2016 Promulgating the Companies Law.
Financing	: Loans and financing facilities provided by local banks to negatively-impacted customers in accordance with the Law No. (2) of 2021.

Second: Financing Process and Conditions

Article (2)

A negatively-impacted customer may submit a financing application to a bank via an electronic portal designated for this purpose, while fulfilling the following requirements:

- An official finance application signed by the authorized signatory.
- The financial statements of SMEs presenting the operating results for the period prior to 12/03/2020.
- The financial position of the emerging enterprises, if no financial statements were issued, reflecting the operating results for the period prior 12/03/2020, including the documentation and contracts that support the statements of financial position.
- The financial position of legal entities that are not required to issue financial statements in accordance with the governing laws and regulations (such as professionals) reflecting the operating results for the period prior to 12/03/2020.
- A statement of the expected future monthly cash flows.
- A statement of needed contract expenditures such as salaries, rents, and any outstanding payments for any obligations.
- An authorization from the customer to the bank to inquire from the Credit Information Network Company (Ci-Net).
- A list of the national manpower at the entity issued by the Public Authority of Manpower setting out the ratio of national manpower at the end of 2019, and the ratio required at the end of 2021.
- Any other information requested by the bank for conducting the credit study.

The bank shall notify the customer within five working days of receiving the finance application, of whether the application is complete or not. In the latter case, the bank should specify the other documents and data to be submitted.

Article (3)

The bank conducts the required credit study in such comprehensive and swift manner. The said study should cover, at least: : verification that the customer satisfies the terms and conditions for extending the finance, reviewing the customer's historical cash flows, and inquiring about the customer through the Credit Information Network Company (Ci-Net).

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Due diligence shall be made to verify the statements of the financial position of the emerging enterprises and entities that are not required to issue financial statements in accordance with the governing laws and regulations.

Article (4)

The bank shall notify the customer of the final decision based on the credit study of the finance application submitted by the customer within a maximum period of 15 working days from the date of completing all documents, provided that the said notification should include the reasons for rejection, if any. In case of rejection, the concerned customer may submit a new application to another bank.

Article (5)

The bank shall determine the amount of the requested finance in proportion to the deficit in the cash flows of the negatively-impacted customer. In addition, the bank shall determine the repayment period according to the customer's expected cash flows.

Article (6)

The bank extends the finance in tranches, disseminated concurrently with the periodic obligations requested to cover the actual realized cash flows, and deposit the same directly in the beneficiaries' bank accounts. The bank shall ensure maturity of these payments, and the finance must not be paid in cash to any customer.

Article (7)

The bank shall provide the customer with a clear and simple statistical table setting out the amounts and number of installments, and the components of each installment including the principal, the interest/ returns to be paid by the customer, the part of those interests/ returns to be borne by the State public treasury, and the total amounts the customer shall pay until the end of the finance period.

Article (8)

Any non-performing client as of 31/12/2019 is not eligible to this finance. Non-performance is defined as per the provisions of the Central Bank of Kuwait's Instructions regarding "The Rules and Principles for Classification of Credit/Financing Facilities, Calculation of their Provisions and Treatment of the Income therefrom. However, negatively-impacted customers, i.e. the owners of emerging enterprises, shall be exempted.

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Article (9)

The customer shall use the funding to finance working capital to cover the deficit in the required contractual operating expenditure (e.g. salaries, rents, maintenance, and any payments due for any outstanding obligations). In all cases, the customer may not use the financing in speculation, trading in real estate and securities or payment of outstanding instalments or credit facilities due on the customer to banks or any other lender, or in any other purpose save as the those stipulated under the Law. No. (2) of 2021.

Article (10)

The bank shall be entrusted with the responsibility for managing the debt and shall not charge any commission or fee other than the interest/ returns stipulated under Article (7) of the Law No. (2) of 2021.

Third: Cost of Finance

Article (11)

Finance is extended at a fixed interest/return rate for the whole financing period at a maximum of 1% over the discount rate declared by the Central Bank at the time of granting the finance. The following table sets out the method for charging interests/returns on the diminishing balance of finance. The cost of finance over the repayment term shall be allocated as follows:

Period	Interest/return on financing the negatively-impacted customers
1st year (grace period)	Fully borne by the State Public Treasury.
2nd (grace period)	Fully borne by the State Public Treasury.
3rd Year	The State Public Treasury bears (90%) and the customer bears (10%).
4th year	The State Public Treasury bears (80%) and the customer bears (20%).
5th to 10th year	Fully borne by the customer.

The customer shall bear all interests/returns not paid by the State Public Treasury in all years of repayment term.

Article (12)

Banks shall provide the Central Bank of Kuwait, on a quarterly basis, with the State Public Treasury's share of finance cost (interest/returns) in accordance with the provisions of Article (7) of the Law No. (2) of 2021, within ten business days from the end of each quarter, audited by the lending banks' auditors so that the Central Bank submits the same to the Ministry of Finance.

Fourth: Guarantees

Article (13)

The State shall guarantee 80% of the principal financing provided to the negatively-impacted customers under these controls without any interest/return for the period set forth under Article (6) of the Law No. (2) of 2021 up to a maximum Kuwaiti Dinars Five Hundred Millions for the total new financing amounts provided by all banks within six months from the date of publishing this law in the official gazette and entry into force.

Article (14)

After six months of enforcement of the Law No. (2) of 2021, banks shall submit to the Central Bank a detailed schedule showing the new financing facilities disbursed to customers in accordance with this law, and controls and instructions issued by the Central Bank, and the amounts guaranteed by the State. The said schedule must be audited by the external auditors. The report shall include auditors' verification that the bank has complied with the terms and conditions stipulated under this law as well as the rules and terms under the present controls.

Article (15)

Banks shall pay a guarantee issuance commission to the Central Bank within three business days from the end of each year in accordance with Article (10) of the Law No. (2) of 2021, accompanied by a certificate audited by the Bank's auditors indicating correctness of commission calculation.

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Fifth: Default and Enforcement of the Guarantee

Article (16)

Banks shall exert all efforts to collect the payments due from the customers, who have obtained financing. In case of default, the following collection process shall be applied:

- The bank shall submit a request to enforce the guarantee to the Central Bank on behalf of the State and attach copies of the actions taken to collect the outstanding amounts from the financed entity, including warning messages sent to the defaulting entity.
- The bank files a lawsuit before the competent court against the defaulting customers.
- The bank provides a proof of the legal actions taken against the defaulting customers.

Article (17)

The bank shall follow up on collection from defaulting customers, initiate the legal and judicial proceedings, and take any other actions stipulated under the Law No. (2) of 2021 and the resolutions issued for implementation thereof.

Article (18)

In the event that any amount of the defaulted finance is recovered, the State shall get its share of the recovered amount in line with the guarantee coverage percentage. The recovered amount shall be transferred to the Ministry of Finance Account held with the Central Bank within a maximum of three business days from the date of the amount collection.

Sixth: General Rules

Article (19)

Banks shall develop electronic portals to receive financing applications. In addition, banks shall publish these controls on the bank's electronic platforms along with a list of the documents required to review the applications of the negatively-impacted customers.

Article (20)

The Bank shall develop procedures for extending finance to cater for the private nature of the negatively-impacted customers, taking into account fast decision-making, risk assessment and compliance with the instructions for the rationalization and regulation of the credit policy of banks. The latter addresses various bases and controls for extending credit particularly in terms of conducting credit studies of the customer's financial position, estimation of the cash flows and the sources of repayment. In general, the credit study and the final decision to extend finance or not shall be at the sole discretion and responsibility of the bank.

Article (21)

Banks shall record the applications submitted by customers on an early submission basis, and decisions thereon shall be made in accordance with these controls.

Article (22)

Banks shall coordinate with the Credit Information Network Company (Ci-Net) to set up the needed databases for these customers according to a special system that considers the nature of this type of financing, taking into account evidencing the date on which the customer submitted the application for finance and entity the application is addressed to.

Article (23)

The bank shall cease disbursing unutilized finance amounts in the event that the documents submitted by the customer are found incorrect, and take the necessary legal actions to recover the amounts that have been unduly disbursed including the costs borne by the State Public Treasury as a result of acts committed in violation of the Law No. (2) of 2021 and the controls issued by the Central Bank. The State Public Treasury shall no longer bear any part of the finance cost.

18/04/2021

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