

**13 - INSTRUCTIONS CONCERNING RULES AND  
REGULATIONS FOR BANKS' EXTENSION  
OF CONSUMER LOANS AND OTHER  
INSTALLMENT LOANS**

- A) Circular concerning the rules and regulations for banks extension of consumer loans and other installment loans .
- B) Circular requiring banks to comply with Central Bank of Kuwait's instructions regarding the purpose for according consumer and other installment loans, as provided for under the relevant rules and regulation.
- C) Cancellation of Paragraph (5) of item "THREE" of the instructions issued on April 20, 1996 concerning the rules and regulations for banks extension of consumer loans and other installment loans .
- D) Circular No. (2/BS/14/1997) concerning the amendment of the maximum period for repayment of Consumer Loans.
- E) Circular requiring banks to promptly stop collecting from customers any amounts under any description, without rendering actual services in consideration for such amounts.
- F) Circular concerning exchange of information on consumer loans in respect of which legal actions have been taken.
- G) Circular requiring banks not to report staff loans in the periodic statements of consumer loans nor within the data of the centre of risks system.
- H) Circular concerning the deduction of extra amounts - under various descriptions - upon granting consumer and other installment loans to customers.
- I) Circular No. (2/BS/78/2000) amending the maximum amount established for consumer and other installment loans, and the manner of computing such limit.
- J) Circular No. (2/BS/87/2001) concerning the exchange of information on consumer and other installment loans, in which respect legal actions have been taken.

- K) Circular No. (2/BS/89/2001) concerning the amendment of the maximum ratio for consumer and other installment loans
- L) Instructions concerning fees & commissions on customers credit facilities.
- M) Instructions concerning all fees & commissions collected by local banks from their customers.
- N) Circular prohibiting banks' sale of any portion of their consumer and other installment loans portfolio, to entities not subject to Central Bank of Kuwait's Supervision.
- O) Circular requiring banks to immediately stop collecting any fees from their customers in consideration for inquiring on them with Credit Information Network Company (Ci-Net).
- P) Circular No. (2/BS/159/2004) concerning the amendment of computing the maximum limit / ratio for consumer and other installment loans by adding the net balances of the Certificates of Deposits, after netting-off the balances of Certificates of Deposits sold to local banks and those purchased from them.
- Q) Circular No. (2/BS/166/2004) regarding the Manner of Computing the maximum Limit / Ratio for Consumer and Other Installment Loans by adding long and medium term loans at the net value.
- R) Circular No. (2/BS/163/2004) Concerning the amendments to the rules and regulations for granting consumer and other installment loans.
- S) Circular No. (2/BS/174/2005) Concerning the cancellation of the maximum limit established for total consumer loans and other installment loans .
- T) Circular regarding the discontinuation of the use of the database relevant to customers of consumer and other installment loans, against whom legal actions have been taken, and the use of the database of those customers operated by Credit Information Network Company (Ci-Net), instead affecting 1/1/2006.
- U) Circular No. (2/BS/185/2006) on defining the concept of the maximum limit established for consumer and other installment loans, and on determining a maximum time period during which the last payment of such loans is made.
- V) Instructions concerning insurance charges borne by consumer and installment loans customers.

- W) Circular No. (2/BS,IBS,IS,IIS/202/2007) concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer and installment loans (finance Transactions).
- X) Circular No. (2/BS/203/2007) concerning amendments to the rules and regulations for according consumer and other installment loans.
- Y) Circular No. (2/BS, IBS/205/2007) concerning consumer and installment loans prepayment fees.
- Z) A Circular Stressing that the Certificate required to be submitted must be signed by both external auditing firms, testifying that banks have rectified all the violations that were existing in relation to the consumer and installment loans (finance transactions) rules and regulations.
- AA) Circular to Banks & Investment Companies' External Auditors regarding the completion of data on rectification of violations
- BB) Circular regarding the engagement by banks of both external auditors to audit consumer and installment loans granted during the period from 16/1/2007 to 31/12/2007, and to present a report in this respect not later than the end of April 2008.
- CC) Circular No. (2/BS/IS/215/2008) concerning the amendment of the rules and regulations for granting consumer and other installment loans.
- DD) Circular regarding the treatment of some practices related to installment loans.
- EE) Circular No. (2/BS,IBS,IS,IIS/216/2008), amending the tables of consumer and other installment (housing) loans.

**GOVERNOR**

*Thu Al-Hijja 4, 1416 H  
April 22, 1996*

**THE CHAIRMAN,**

**A Circular Concerning the Rules & Regulations For Granting  
Consumer And Other Installment Loans.\***

We would like to advise you that the Central Bank Board of Directors, at its meeting held on 20/4/1996, approved a number of amendments to our instructions previously issued on 11/12/1995, pertaining to rules and regulations of granting the consumer loans and other installment loans by the banks. Enclosed please find a copy of the revised instructions which your bank is required to implement effective this date.

A comprehensive review of all the installment loans currently granted by your bank must be carried out, and your bank is required to instantly discontinue granting any loans which are not in line with the contents of the Central Bank's aforesaid instructions.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

\* Circularized to all Local banks

## **Revised Instructions Concerning the Rules & Regulations for Granting Consumer and Other Installment Loans by Banks.**

### **FIRST: DEFINITIONS<sup>(1)</sup>**

- 1) A **Consumer Loan** is meant to be a **medium term personal** loan extended to a customer for the purpose of financing the purchase of his personal needs of consumer and durable goods, or to cover educational or medical treatment expenses; a consumer loan is repayable in monthly installments during a period not exceeding 5 years.
- 2) An **Installment (housing) loan** is meant to be a **long-term personal** loan which is utilized by the customer for non-commercial purposes, in particular for repair or purchase of a private residence. This loan is repaid in monthly installments during a period not exceeding 15 years.

### **SECOND: LOANS MAXIMUM LIMIT**

With the exception of the Kuwait Real Estate Bank, due to the special nature of its operations, total consumer and other installment loans granted by a bank to its customers, may not exceed 12% of the private sector's total deposits at the level of local activity (deposits with the head office and branches in the State of Kuwait), comprising current accounts, call deposits, savings accounts, term deposits, certificates of deposits and deposits of other financial institutions (excluding investment companies). Balances resulting from inter-bank transactions are excluded from such deposits. In addition, a 30% of the bonds in issue and the medium and long term loans which residual maturity is not less than one year, has been added to the established 12% limit. <sup>(2)</sup>

#### **1) Maximum Amount of the Consumer Loans <sup>(3)</sup>:**

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

(1) Definitions were amended pursuant to circular No. (2/BS,IS/215/2008) issued on 24/3/2008.

(2) The maximum limit established for consumer and other installment loans was amended pursuant to circular No. (2/BS/174/2005) issued on 6/1/2005.

(3) The maximum limit established for consumer loans and other installment loans, as well as the method of the limit calculation, were amended pursuant to circular No. (2/BS/163/2004) issued on 8/6/2004. The mentioned limit was also amended pursuant to circular No. (2/BS/203/2007) issued on 12/3/2007.

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

## **2) Maximum Amount of the Installment loans:**

The total amount of the installment loans granted to one customer shall not exceed KD 70,000 (inclusive of the maximum limit of the consumer loan referred to under item [1] above).

### **THIRD: GENERAL REGULATIONS GOVERNING THE EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS.**

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

- 1) The customer's application shall include the following data as a minimum:
  - a) Amount of the loan.
  - b) The specific purpose of the loan.
  - c) Loan's Repayment Source. If the salary is not the source of payment, the customer should specify the other repayment sources.
  - d) Repayment period as requested by the customer.
  - e) An undertaking from the customer to present all documents requested by the bank, including the bills and documents evidencing the use of the loan for the purpose it was granted for. In the event of the customer's incompliance, he will not be granted any new facilities.
  - f) Statement of the consumer and other installment loans, as well as the similar existing financial obligations, which the customer might have obtained from other banks or institutions subject to the Central Bank's or any other authorities supervision.
- 2) Upon receiving the customer's application for a consumer loan or any other installment loan, the bank shall immediately study the propose of the loan and verify the repayment source and fulfillment of all other terms.
- 3) It is prohibited for banks and investment companies to grant loans to natural persons under any other names, if the source of repaying the principal debt and / or the interest is the salary or the continuous monthly income of the customer. Loans granted to customers within this context are limited to consumer and installment (housing) loans according to the concept established in the instructions issued in this respect.<sup>(1)</sup>

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

- 4) Central Bank of Kuwait stresses the requirement for banks and investment companies to ascertain, when granting consumer loans and installment (housing) loans, all the existing obligations of the customer, so as to determine the appropriate size of the loan for the customer and the amount of monthly installments, ensuring that the monthly burdens of the borrower are not increased<sup>(1)</sup>
- 5) The bank must obtain from the employer of the consumer or installment loan applicant a certificate detailing his monthly salary and all monthly deductions, or a proof certifying the availability of the sources of continuous monthly income.<sup>(2)</sup>
- 6) A one single customer may obtain consumer and other installment loans from more than one lender, subject to the following conditions:
  - a) The total of the consumer and other installment loans obtained by a borrower from all lenders, may not exceed the maximum limits established under item “Second”.
  - b) Total installments of consumer and other installment (housing) loans may not exceed 40% of the borrower’s net salary (after deductions) or his continuous monthly income, or 30% for loans accorded to pensioners<sup>(3)</sup>. The bank must obtain a declaration from the customer to this effect.
  - c) In cases where the customer applies for a consumer or installment loan and his submitted salary certificate indicates that he is getting a rental allowance, then the rental allowance must be excluded from the salary when calculating the total installments / net salary ratio which may not exceed 40%<sup>(3)</sup>.
- 7) The bank shall abstain from extending consumer loans and other installment loans to the customers against whom legal actions have been taken in respect of such loans previously obtained, or in relation to any other liabilities towards banks, investment companies or any other parties<sup>(4)</sup>.

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

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

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

(4) This paragraph was deleted pursuant to the circular issued on 13/11/1996.

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS’ EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

A) Circular concerning the rules and regulations for banks extension of consumer loans and other installment loans .

- 8) The agreement concluded between the bank and the borrower of the consumer loan or any other installment loan, shall include the following :
  - a) The customer's approval that the bank shall collect the installments directly from the employer or through debit to the customer's account to which his fixed income is transferred .
  - b) The specific purpose of the loan .
  - c) The installments amounts and repayment dates.
- 9) The loan granting bank shall obtain the following documents:
  - a) A copy of the identify card or passport and the residence evidence (Electricity / water bill or lease contract).
  - b) The sufficient collaterals to secure the recovery of all the bank's rights.
- 10) Interest Rates and Method of its Collection:
  - Interest rate ceiling for consumer and installment loans shall not exceed 3% over the discount rate declared by Central Bank of Kuwait<sup>(1)</sup> .
  - Interest may not be deducted upfront, whether for consumer or installment loans <sup>(1)</sup> .
  - A fixed interest rate shall apply to consumer loans, in accordance with the contractual interest rates prevailing at the time of granting the loan<sup>(1)</sup> .
  - A fixed interest rate shall apply to installment loans as per the contractual interest rates prevailing at the time of granting, provided that the agreements made with customers for this purpose shall include a clause stating that the lending party shall review the applicable interest rates every five years within the loan maturity, whereby the applicable interest rate will be reviewed to suit Central Bank of Kuwait's declared rate by the end of every five years of installment loan maturity (amendment to commence effective from installment No. (61), then installment No. (121), and provided that the change in interest rate shall not exceed 2% (by increase or decrease) of the contractual interest rate applicable according the loan agreement before the change <sup>(1)</sup> .

(1) These paragraphs were amended pursuant to circular No. (2/BS,IS/215/2008) issued on 24/3/2008



- 11) The bank shall provide the Central Bank with the following information on monthly basis:
  - a) Total consumer loans, broken down by categories of the loans.
  - b) Total other installment loans, excluding the consumer loans, categorized per purpose of the loan.
  - c) The legal actions taken against customers of the consumer loans and other installment loans.

#### **FOURTH: REGULATIONS SPECIFIC TO THE CONSUMER LOANS.**

- 1) The bank must obtain from the employer of the consumer loan customer, a certificate stating his monthly salary. If the customer is a retired person, a certificate from the PISS stating his monthly pension must be obtained.
- 2) The maximum loan repayment period shall be five years <sup>(1)</sup>.
- 3) The bank may deduct in advance the loan interest which shall not exceed the interest rates determined by the Central Bank for this type of loans.
- 4) The loan granting bank shall obtain promissory notes duly signed by the borrower for the installments amounts, payable on the installments payment dates.
- 5) The guarantor, if any, must sign the loan agreement.
- 6) In the event the bank reschedules the consumer loan, if the need arises, the rescheduling cases should be kept to the minimum and be confined to the clear problem cases which cannot be resolved even through legal actions. The following rules must be taken into account in general:
  - The rescheduling shall be within the narrowest limits and for the purpose of protecting the bank's rights. There should be convincing reasons for rescheduling, most importantly an evidence of the customer's real inability to repay.
  - The rescheduling should not involve granting any new loans to the customer in addition to the one already granted and which is meant for reschedulement.

(1) The last amendment to the maximum period for repayment of consumer loans was made pursuant to circular No.(2/BS/163/2004) issued on 8/6/2004.

- The repayment period according to the reschedulement shall not exceed one year, apart from the original repayment period determined for the loan and which is a maximum of five years <sup>(1)</sup>.
- The bank shall prepare a statistical record of the reschedulement cases in chronological order.

**FIFTH: RULES AND REGULATIONS FOR ACCORDING CONSUMER AND OTHER INSTALLMENT LOANS** <sup>(2)</sup>

**This item stipulates the following:**

1. The maximum repayment period for the installment loan shall be 15 years.
2. Combination of salaries (or of continuous monthly income) is not permitted for customers of first degree kinship, including the husband and the wife. Neither the husband nor the wife may guarantee each other.
3. In the event the bank reschedules the installment loan, if so needed, the following rules must be observed:
  - The rescheduling shall be within the narrowest limits and for the purpose of protecting the bank's rights. There should be valid reasons for rescheduling, most importantly an evidence of the customer's real inability to repay, in which case legal actions against the customer would be useless.
  - The rescheduling shall not involve granting any new loan to the customer other than the loan already granted and intended to be rescheduled.
  - The rescheduled repayment period shall not exceed 3 years, apart from the original repayment period determined at a maximum of 15 years. In other words, the repayment period, including the rescheduling period, shall not exceed 18 years.
  - The bank shall prepare a statistical record of the reschedulement cases in chronological order.

(1) The last amendment to this paragraph was made pursuant to the approval of the Central Bank Board of Directors on 6/6/2004 in the manner set out in circular No. (2/BS/163/2004) issued on 8/6/2004.

(2) This item was added pursuant to the Central Bank of Kuwait Board of Directors' resolution dated 6/6/2004, and the sequence of the following items was revised accordingly, as set out in circular No. (2/BS/163/2004) issued on 8/6/2004.

**SIXTH : OTHER RULES :**

The following rules must be complied with :

- 1) Granting consumer loans or other installment loans for the purpose of financing the travel or marriage expenses, is prohibited.
- 2) The actual interest rate which is to be paid by the customer on the consumer loans must be announced at a prominent place at the banking lobby of the head-office and all branches of the bank. The bank shall also announce the actual interest rates charged on such types of loans in all forms of advertising campaigns launched by the bank.

**SEVENTH:** The previous instructions concerning the rules and regulations of granting the consumer loans, are hereby repealed.

**EIGHTH:** These instructions shall come into force effective the date of their issuance.

*Issued on : April 20, 1996*

**Central Bank of Kuwait  
Supervision Department  
Credit Section**

Bank /Company :.....  
Date : .....

***Statement Of Total Existing Consumer Loans  
As On     /     /  
Form AM(3)***

KD .000's

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

\* Under this column, the balances of the consumer Loans granted prior to issuance of Rules & Regulations of Granting Consumer Loans, shall be reported .

**Central Bank of Kuwait  
Supervision Department  
Credit Section**

Bank /Company :.....

Page No.: .....

Date : .....

***The Consumer Loans Against which Legal  
Action Have been taken During The Month of  
Form AM(7)***

KD .000's

Serial No.	Name	Balance of The Loan	Loan's Tenor	Date of initiating Legal Actions	Reason of Initiating The Legal Actions	Remarks

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

**Central Bank of Kuwait  
Supervision Department  
Credit Section**

Bank /Company :.....

Page No.: .....

Date : .....

***The Consumer Loans which Legal Actions  
Have Been Lifted  
Form AM(8)***

KD .000's

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

Signature and Seal of the Bank / Company.....

**Central Bank of Kuwait  
Supervision Department  
Credit Section**

Bank /Company :.....

Date : .....

***Statement of Total Existing Installment Loans  
Excluding The consumer Loans) As On    /    /  
Form AM(20)***

KD .000's

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

Company's signature: .....

**Central Bank of Kuwait  
Supervision Department  
Credit Section**

Bank /Company :.....

Page No.: .....

Date : .....

***The Installment Loans (Excluding The Consumer Loans)  
against which Legal Actions Have Been Taken  
During The Month of .....  
Form AM(21)***

(Amount in KD)

Serial No.	Name	Balance of The Loan	Loan's Tenor	Date of Initiating Legal Actions	Reason of Initiating Legal Actions	Remarks

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



**Central Bank of Kuwait  
Supervision Department  
Credit Section**

Bank /Company :.....

Page No.: .....

Date : .....

***The Installment Loans (Excluding The Consumer Loans)  
Which Legal Actions Have Been Lifted  
Form AM(22)***

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

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

**Central Bank of Kuwait  
Supervision Department  
Credit Section**

Bank /Company :.....

Date : .....

***Statement of Total Consumer Loans & Installment Loans  
Form AM(23)***

KD .000's

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

\* This should match with Total of Form AM (3)

\*\* This should match with Total of Form AM (20)

**THE MANAGER**

*Safar 25, 1417 H  
July 11, 1996*

**THE GENERAL MANAGER,**

**“ Circular To All Local Banks ”**

With reference to Central Bank of Kuwait instructions of 22/4/1996 concerning the rules and regulations for according consumer and other installment loans.

We would like to advise you that, upon inspecting some of the banking and financial system units, it was noticed that some of these units accord installment personal loans to customers – under different descriptions – for the purpose of financing consumer or durable goods.

We would like to note that such practice constitutes a breaching to Central Bank of Kuwait above mentioned instructions, which classified all transactions of financing consumer and durable goods, medical treatment and education expenses under only one category, which is the consumer loans . Therefore, your bank must strictly comply with the subject instructions.

Best Regards,

**Manager of Supervision Department**

**Hamad Abdul-Mohsen Al Marzouq**

**GOVERNOR**

*Rajab 2, 1417 H  
November 13, 1996*

**THE CHAIRMAN,**

**Circular to all Local Banks and Investment Companies\***

We would like to advise you that the Central Bank Board of Directors, at its meeting No. (237) held on November 10, 1996, resolved to cancel paragraph (5) of Item “Three” of the instructions issued on April 20, 1996 in connection with banks and investment companies extension of consumer and other installment Loans .

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

\* Circularized to all Local banks

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

C) Cancellation of Paragraph (5) of item “THREE” of the instructions issued on April 20, 1996 concerning the rules and regulations for banks extension of consumer loans and other installment loans .

**GOVERNOR**

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

**THE CHAIRMAN,**

**Circular No. (2/BS/14/1997) Concerning the Amendment  
of Consumer Loans maximum Repayment period\***

With reference to our letter to you, dated December 11, 1995, concerning the instructions on the rules and regulations governing banks extension of consumer loans and other installment loans, and to the amendments of said instructions as conveyed to you in our letters of April 22 and November 13, 1996.

We would like to advise you that the Central Bank of Kuwait resolved at its meeting held on April 9, 1997, to make some amendments of the aforesaid instructions, as follows:

- 1- Amendment of paragraph (2) of Item "Fourth" of the subject instruction to read **"The maximum repayment period of the consumer Loans is three years"**.
- 2- Amendment of paragraph (3) of Item (6) of Item "Fourth" of the subject instructions, to read **"The rescheduled Loan repayment period shall not exceed one year beyond the originally determined repayment period of three years"**.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

\* Circularized to all Local banks

**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

D) Circular No. (2/BS/14/1997) concerning the amendment of the maximum period for repayment of Consumer Loans.

## **THE MANAGER**

*Rajab 10, 1418 H  
November 10, 1997*

### **THE GENERAL MANAGER,**

#### **"CIRCULAR TO ALL LOCAL BANKS"\***

While conducting inspection on a number of banking and financial institutions, it was noticed that some of them charge their customers with amounts in excess - under various names - upon granting them consumer loans or other installment loans, particularly the residential loans and loans for the purpose of house repair/maintenance, without rendering any real service to the customers against such charges.

We would like to refer to rule of Article (111) of the Kuwaiti Commercial Law which provides that “If any commission or benefit of whatever type stipulated by a creditor, exceeds together with the agreed interest the maximum contractual interest rate announced by the Central Bank of Kuwait, then it shall be considered as a concealed interest and shall be subject to reduction if it is proved that such commission or benefit is not in return for a real service rendered by the creditor.”

Therefore, the Central Bank of Kuwait stresses the necessity to immediately stop collecting any amounts - under any definitions - from the customers without any real service rendered for them. Banks are also required to reimburse to the customers any amount that have been collected without rendering any real service to them.

Best Regards,

**Manager of Supervision Department**

**Hamad Abdul-Mohsen Al Marzouq**

\* Circularized to all Local banks

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

E) Circular requiring banks to promptly stop collecting from customers any amounts under any description, without rendering actual services in consideration for such amounts.

**THE MANAGER**

*Rabi Al-Awal 6, 1419 H  
June 30, 1998*

**THE GENERAL MANAGER,**

**CIRCULAR NO. (2/BS/56/98) CONCERNING EXCHANGE OF  
INFORMATION ON CONSUMER LOANS IN RESPECT OF  
WHICH LEGAL ACTIONS HAVE BEEN TAKEN**

We would like to indicate to the Central Bank of Kuwait's two letters dated 16/11/1988 and 24/12/1988, regarding exchange of information on the consumer loans against which legal actions have been taken.

We also refer to the Central Bank of Kuwait's letter dated 15/2/1989, as concerns dropping the legal actions taken against the consumer loans.

We have noted that certain banks and investment companies have included names of some customers under data of the consumer loans customers against whom legal actions have been initiated, after their having discontinued the payments and having been served with warning letters, without proceeding to file a lawsuit against them. We, therefore, confirm that commencement of taking the legal actions must be associated only with the cases where the lawsuits are filed against the customer (date of filing the lawsuit), and therefore, you are required not to include name of any customer within the statement of the customers against whom legal actions have been initiated, for his merely being addressed with a warning letter.

Best Regards,

**Acting Manager of Supervision Department**

**Ibrahim Ali Al-Qadhi**

**THE MANAGER**

*Rabi Al-Awal 15, 1419 H  
July 9, 1998*

**THE GENERAL MANAGER,**

**"CIRCULAR TO ALL LOCAL BANKS"**

We have noticed that some of the banks have reported its staff loans data in the periodical statements relating to the consumer loans and other installment loans, which are sent to the Central Bank of Kuwait on monthly basis. The banks have also reported this information under the centre of risks statements.

Therefore, in the case your bank carries out the said procedure, then you shall take the necessary action to exclude data of your staff loans, from the periodical statements pertaining to the consumer loans and not to report them within the centre of risks statements as well. Your bank is required to include such loans, as a footnote in the consumer loans statements and other installment loans, as a statistical note.

Best Regards,

**Acting Manager of Supervision Department**

**Ibrahim Ali Al-Qadhi**



## THE MANAGER

*Jumada Al-Aula 15, 1419 H  
September 16, 1998*

### THE GENERAL MANAGER,

#### **"CIRCULAR TO ALL LOCAL BANKS"**

***Excess amounts collected – under different descriptions - from customers  
of some banking and financial system units, upon granting them  
consumer and other installment loans***

The inspection on some units of the banking and financial system revealed that some of these units collect excess amounts from customers – under different descriptions – upon granting them consumer or other installment loans, without rendering actual services in return for the same.

Therefore, we would like to confirm the contents of our letter dated 10/11/1997, requiring banks to immediately stop collecting any amounts from customers – under any definitions – without rendering actual services in return for such amounts. This requirement is in line with the rules of Article (111) of the Kuwaiti Commercial Law, which reads as follows:

“Any commission or benefit stipulated by a creditor, if, together with the agreed interest, exceeds the aforementioned maximum rate, shall be considered a concealed interest. It shall be subject to reduction if it is proved that such commission or benefit is not in return for a real service rendered by the creditor”.

we would also like to draw your attention to the requirement that the cost of any service rendered to customers must be determined in the light of a study supporting the same and clarifying the bases on which the cost estimate relied. Furthermore, Central Bank of Kuwait would like to stress the contents of paragraph one of our letter dated 12/2/1995, which require banks to announce the rates of all services rendered to customers on a special board to be installed in their head offices and all of their branches operating in the State of Kuwait.

Best Regards,

**Acting Manager of Supervision Department**

**Ibrahim Ali Al-Qadhi**

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13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS

H) Circular concerning the deduction of extra amounts - under various descriptions - upon granting consumer and other installment loans to customers.

**GOVERNOR**

*Thu Al-Hijja 28, 1420 H  
April 3, 2000*

**THE CHAIRMAN,**

**CIRCULAR NO. (2/BS/78/2000) CONCERNING THE INCREASE OF  
THE MAXIMUM RATIO ESTABLISHED FOR CONSUMER LOANS  
AND OTHER INSTALLMENT LOANS, AND THE MODIFICATION  
OF THE MANNER OF COMPUTING THE SUBJECT RATIO<sup>(1)\*</sup>**

This has reference to our letter dated 22/4/1996 concerning the instructions on the rules and regulations for granting consumer loans and other installment loans, as well as to the relevant amendments advised to you under our letters dated 13/11/1996 and 10/4/1997.

We would like to advise you that Central Bank of Kuwait Board of Directors, at its meeting of 2/4/2000, resolved to modify the ratio for consumer loans and other installment loans as established under item "Second" of the relevant instructions issued on 22/4/1996, by adding the certificates of deposit and other financial institutions deposits (other than investment companies) to total private deposits at the local business level (i.e. deposits with the Head Office and the branches inside Kuwait), as well as by amending the ratio established in those instructions to become 12% instead of 10%, and by adding 30% of the issued bonds to the new limit of 12%.

Your bank is required to comply with these instructions immediately, while continuing with the implementation of the other rules provided for in the instructions on granting consumer loans and other installment loans.

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

\* Circularized to all Local banks

(1) The maximum limit of consumer loans and other installment loans was deleted by the circular No.(2/BS/174/2005) issued on 6/1/2005.

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

1) Circular No. (2/BS/78/2000) amending the maximum amount established for consumer and other installment loans, and the manner of computing such limit.

**GOVERNOR**

*Rabi Al-Akhir 18, 1422 H  
July 9, 2001*

**THE CHAIRMAN,**

**Circular No.(2/BS/87/2001) to All Local Banks  
and Kuwait Finance House concerning the exchange of  
information on consumer and other instalment loans,  
in which respect legal actions have been taken.**

We would like to refer to Central Bank of Kuwait letters dated 16/11 & 24/12/1988 concerning the exchange of information on consumer loans in which respect legal actions have been taken, as well as to Central Bank of Kuwait letter of 15/2/1989 regarding the lifting of legal actions taken in connection with consumer loans.

Whereas the mechanism by which information is reported in the list of customers against whom legal actions have been taken, does not allow the deletion of the name of the debtor, regardless of the period that has elapsed since the lifting of the legal actions taken against him, it has been decided to amend this method in such a manner that all information related to customer's default and to the legal action taken against him continue to be reported in the subject list for three years from the date of lifting legal actions taken against him, following which the name of the customer will be excluded from the list.

It is worth mentioning in this respect that the continued reporting of the customer's name in the list for three years from the date of lifting legal actions, should not be interpreted as a restriction on banks and investment companies in relation to according new loans to those customers during that period, because the credit extension decision is one of the basic responsibilities of banks and investment companies as per their credit policies .

Furthermore, banks and investment companies should lay down internal by-laws that ensure the confidentiality of data information reported in the list and prevent this use of the same .

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

J) Circular No. (2/BS/87/2001) concerning the exchange of information on consumer and other installment loans, in which respect legal actions have been taken.

**GOVERNOR**

*Sha'aban 6, 1422 H  
October 22, 2001*

**THE CHAIRMAN,**

**Circular No.(2/BS/89/2001) To all Local Banks  
Concerning the Amendment of the Maximum Ratio  
for Consumer and Other installment Loans<sup>(1)</sup>**

We would like to advise you that the Central Bank of Kuwait Board of Directors, at its meeting on 21/10/2001, resolved to amend the text of its resolution passed on 3/4/2000, concerning the amendment of the maximum ratio of consumer and other installment loans, to read as follows:

“ The ratio for consumer loans and other installment loans as established under item ”Second” of the relevant instructions issued on 24/4/1996, has been modified by adding the certificates of deposit and other financial institutions deposits (other than investment companies deposits) to total private deposits, as well as by amending the ratio established in those instructions to become 12% instead of 10%, while adding 30% of both bonds issued and the medium-term and long-term loans which residual maturity is not less than one year, to the new limit of (12%).

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

(1) The maximum limit of consumer loans and other installment loans was deleted by the circular No.(2/BS/174/2005) issued on 6/1/2005.

**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

K) Circular No. (2/BS/89/2001) concerning the amendment of the maximum ratio for consumer and other installment loans.

**GOVERNOR**

*Muharram 24, 1423 H  
April 7, 2002*

**THE CHAIRMAN,**

**Instructions to All Local Banks Concerning  
Fees & Commissions on Customers Credit Facilities\***

This has reference to Central Bank of Kuwait Board's resolution No.(2/220/1995) concerning the cancellation of the maximum limits for fees and commissions collected by banks from their customers in consideration for services rendered to them, and which provided that fees and commissions collected on banking services should not be overstated and should be commensurate with the cost of rendering those services.

Furthermore, Central Bank of Kuwait's circulars dated 10/11/1997 and 16/9/1998 required banks to stop collecting any excess amounts from customers, under any definitions, without being in consideration for actual services rendered to them, as provided for under article (111) of the Kuwaiti Commercial Law, which reads as follows:

“Any commission or benefit stipulated by a creditor, if, together with the agreed interest, exceeds, the aforementioned maximum rate, shall be considered a concealed interest. It shall be subject to reduction if it is proved that such commission or benefit was not in return for a real service rendered by the creditor”.

Recent inspection on banks revealed that some banks collect excess amounts from various credit facilities customers under different descriptions, such as management fees, documentation fees, credit maturity extension fees, collateral handling fees, credit renewal fees or other fees under other definitions, without being in consideration for actual services rendered to customers, or without the availability of documents which prove that banks incur such amounts on behalf of the customers, and justify the collection of such fees . It was also noticed that some banks collect amounts under the definition “insurance fees”, without making the required insurance with the respective insurance company, or overstate the value of these fees, such as the case with evaluation fees for real estate properties mortgaged as collateral for customers credit facilities, without a reason justifying the same.

\* Circularized to all Local banks

13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS

L) Instructions concerning fees & commissions on customers credit facilities.

Taking into account that the collection of excess amounts from customers is considered a breaching of the rules of article (111) of the Kuwaiti Commercial Law and Central Bank of Kuwait relevant circulars dated 10/11/1997 and 16/9/1998, Central Bank of Kuwait hereby requires all banks to comply with the following :

- 1- No insurance fees may be collected against any type of credit facilities, except where a contract is signed with a specialized insurance company requiring the payment of insurance premiums to such company, and provided that the insurance fees collected from customers should be limited to the amount paid to the insurance company<sup>(1)</sup>.
- 2- As regards the evaluation fees for real estate properties or assets relevant to customers credit facilities which conditions stipulate the evaluation to be made by specialized firms, the evaluation fees collected from customers should not exceed the amount paid to such firms.

In the case of banks which have specialized units for properties/assets evaluation, fees collected from customers should be commensurate with the rates prevailing in the market and shall be subject to Central Bank of Kuwait's prior approval.

- 3- Except for the insurance and evaluation fees as regulated under items (1) and (2) above, banks must stop collecting any fees or commissions they currently apply, under any definition, to customers credit facilities.
- 4- Banks may not collect any fees or commissions, under any definition, in relation to credit facilities, except after advising Central Bank of Kuwait of the nature of such fees and commissions and of their actual cost for the bank, as evidenced by supporting documents. Such fees and commissions will be implemented only after obtaining Central Bank of Kuwait's approval.
- 5- Banks must announce all fees and commissions collected from customers against credit facilities granted to them, on special sign boards fixed in banks head offices and all their branches operating in Kuwait. These fees and commissions must also be mentioned in the credit facilities contacts signed with customers .

(1) On 24/1/2007, a circular was issued to local banks regarding the insurance fees payable by customers of consumer and other installment loans

6- These instructions shall be in force with effect from 14/4/2002.

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**GOVERNOR**

*Rabi Al-Awal 17, 1423 H  
May 29, 2002*

**THE CHAIRMAN,**

**Instructions to All Local Banks Concerning  
Fees & Commissions collected by local banks from their customers**

This has reference to Central Bank of Kuwait's instructions of 7/4/2002 to local banks concerning fees & commissions on customers credit facilities , as well as to our letter dated 17/4/2002 addressed to Chairman of Union of Kuwaiti Banks, whereby we approved the postponement of the implementation of those instructions for one month ending on 14/5/2002, based on the justifications included in the Union's letter of 11/4/2002.

Taking into account the fees and commissions collected by local banks from their customers, other than those related to credit facilities.

Central Bank of Kuwait would like to emphasise to all local banks the necessity of complying with the following :

- 1- The rules of items (1), (2) and (4) of our above mentioned instructions dated 7/4/2002.
- 2- As regards item No. (3) of those instructions, and which relates to fees and commissions that were being collected by banks at the time of issuing Central Bank of Kuwait said instructions, Central Bank of Kuwait will provide each individual bank with Central Bank of Kuwait's decision regarding those fees and commissions in the light of each bank's earlier reply to us .
- 3- Banks may not collect any fees or commissions, under any definition, in relation to any area of banking business except after obtaining Central Bank of Kuwait's prior written approval of such fee or commission. The relevant application submitted by any bank for such an approval shall include the following information:

\* Circularized to all Local banks

**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

M) Instructions concerning all fees & commissions collected by local banks from their customers.



- The name of the service against which the fee or commission is to be collected.
- The maximum amount of the fee or commission
- The justifications for collecting the fee or commission
- The sources by which the bank was guided, if any, in determining the amount of the fee or commission.

We would like to confirm that if any bank collects any fee or commission without obtaining Central Bank of Kuwait's prior written approval, this would entail a commitment on the part of the bank to refund such fees or commissions to the customers from whom they were collected.

- 4- Banks must avoid any pre-determined arrangements on fixing fees and commissions.
- 5- Banks must announce all fees and commissions collected from customers in relation to all banking transactions, on special sign boards fixed in banks head offices and all their branches operating in Kuwait. Banks must also provide customers with a statement of all fees and commissions that will be collected by banks against each service rendered to such customers, where the bank must retain a copy of such statement signed by the respective customer in evidence of his receipt of the same .

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**DEPUTY GOVERNOR**

*Sha'aban 3, 1423 H  
October 9, 2002*

**THE CHAIRMAN,**

**CIRCULAR TO ALL LOCAL BANKS**

Central Bank of Kuwait has noticed that some banks and financial institutions sell a portion of their consumer and other installment loans portfolios to other entities not subject to Central Bank of Kuwait supervision. In view of this finding, we would like to stress that it is prohibited for your bank to sell any portion of such portfolios to other institutions not subject to the supervision of Central Bank of Kuwait.

With my best wishes,

**DR. NABEEL AHMED AL MANAEI**

**GOVERNOR**

*Ramadan 23, 1424 H  
November 18, 2003*

**THE CHAIRMAN,**

**"CIRCULAR TO ALL LOCAL BANKS  
EXCLUDING INDUSTRIAL BANK OF KUWAIT"**

This has reference to Central Bank of Kuwait's instructions of 7/4/2002 and 29/5/2002 concerning the fees and commissions collected by banks from their customers, and which provided that no fees or commissions "under any names" may be collected from banks customers before obtaining the approval of Central Bank of Kuwait.

We have noticed that some banks are breaching the above mentioned instructions by collecting fees from their customers in consideration for inquiring on them with Credit Information Network Company (Ci-Net) as required under the rules of law No. (2/2001) concerning the establishment of a system for collecting information and data on consumer loans and credit facilities associated with credit sale transactions.

Therefore, the Central Bank of Kuwait would like to stress the requirement of immediately stopping the collection of any fees from customers in consideration for inquiring on them with the above mentioned company. In the event your bank desires to collect the subject commission or any other commission from your customers, you must first apply for Central Bank of Kuwait's written approval, as per our above mentioned instructions.

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**GOVERNOR**

*Rabi Al-Awal 17, 1425 H  
May 6, 2004*

**THE CHAIRMAN,**

**CIRCULAR NO. (2/BS/159/2004) TO ALL LOCAL BANKS  
REGARDING THE MANNER OF COMPUTING  
THE MAXIMUM LIMIT / RATIO FOR CONSUMER  
AND OTHER INSTALMENT LOANS<sup>(1)</sup>**

This has reference to Central Bank of Kuwait's Circular No.(2/BS/78/2000) dated 3/4/2000 regarding Central Bank of Kuwait Board of Directors resolution on the amendment of the maximum limit / ratio for consumer and other installment loans, and which allowed the addition of Certificates of Deposits to private deposits when calculating the subject limit / ratio.

While calculating the maximum limit / ratio for consumer and other installment loans, your bank should add the net balances of the Certificates of Deposits after netting-off the balances of Certificates of Deposits sold to local banks and those purchased from them.

In case your bank is in violation of the said limit / ratio as a result of the above, you should take necessary corrective actions in order to comply with the established limit with effect from end of May 2004.

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

(1) The method for calculating the maximum limit of consumer loans and other installment loan was amended by the circular No.(2/BS/166/2004) issued on 14/7/2004

**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

P) Circular No. (2/BS/159/2004) concerning the amendment of computing the maximum limit / ratio for consumer and other installment loans by adding the net balances of the Certificates of Deposits, after netting-off the balances of Certificates of Deposits sold to local banks and those purchased from them.

**Executive Director**

*Jumada Al-Aula 26, 1425 H  
July 14, 2004*

**THE GENERAL MANAGER,**

**CIRCULAR NO. (2/BS/166/2004) TO ALL LOCAL BANKS  
REGARDING THE MANNER OF COMPUTING  
THE MAXIMUM LIMIT / RATIO FOR CONSUMER  
AND OTHER INSTALLMENT LOANS BY ADDING LONG  
AND MEDIUM TERM LOANS AT THE NET VALUE**

This has reference to Central Bank of Kuwait circular No.(2/BS/159/2004) dated 6/5/2004 regarding the manner of computing the maximum limit for consumer and other installment loans, and which provide for adding the net of Certificates of Deposits (after netting off the balances of Certificates of Deposits sold to local banks and those purchased from them).

With this regard, Central Bank of Kuwait have decided the following :

1. To extend the grace period for complying with the established maximum limit for the consumer loans and other installment loans, up to end of December 2004.
2. While calculating the maximum limit (ratio) for consumer and other installment loans, your bank should add long and medium term loans at the net value, after netting of the loans granted to the local banks and those borrowed from them.

Best Regards,

**Executive Director of the Supervision Sector**

**Ibrahim Ali Al-Qadhi**

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

Q) Circular No. (2/BS/166/2004) regarding the Manner of Computing the maximum Limit / Ratio for Consumer and Other Installment Loans by adding long and medium term loans at the net value.

**GOVERNOR**

*Rabi Al-Akhir 20, 1425 H  
June 8, 2004*

**THE CHAIRMAN,**

**CIRCULAR NO.(2/BS/163/2004) TO ALL LOCAL BANKS\*  
CONCERNING THE AMENDMENTS TO THE RULES  
AND REGULATIONS FOR GRANTING CONSUMER  
AND OTHER INSTALLMENT LOANS**

I would like to advise you that Central Bank of Kuwait Board of Directors, at its meeting of 6/6/2004, resolved to introduce certain amendments to Central Bank of Kuwait instructions of 22/4/1996 concerning the rules and regulations for granting consumer and other installment loans, as amended on 10/4/1997. The new amendments are as follows:

1. Item no. 1 / Second of the subject instructions has been revised to read as follows :

**"The amount of the consumer loan shall not exceed 15 times the monthly salary or continuous monthly income of the customer, up to a maximum of KD 15 thousand".**

2. Item no. 2 / Fourth of the subject instructions has been revised to read as follows :

**"The maximum repayment period for the consumer loan shall be 5 years".**

3. Paragraph 3 of item 6 / Fourth of the subject instructions has been revised to read as follows :

**"The rescheduled repayment period shall not exceed one year, in addition to the original repayment period of 5 years".**

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\* Excluding Islamic Banks which were based with separate instruction.

13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS

R) Circular No. (2/BS/163/2004) Concerning the amendments to the rules and regulations for granting consumer and other installment loans.

Central Bank of Kuwait Board also decided to add a new item to the subject instructions under no. (Fifth) – Particular Rules for Installment Loans. Other items next to Item Fifth in sequence shall be re-numbered accordingly. The new item reads as follows:

1. The maximum repayment period for the installment loan shall be 15 years.
2. Combination of salaries (or of continuous monthly income) is not permitted for customers of first degree kinship, including the husband and the wife. Neither the husband nor the wife may guarantee each other.
3. In the event the bank reschedules the installment loan, if so needed, the following rules must be observed:
  - The rescheduling shall be within the narrowest limits and for the purpose of protecting the bank's rights. There should be valid reasons for rescheduling, most importantly an evidence of the customer's real inability to repay, in which case legal actions against the customer would be useless.
  - The rescheduling shall not involve granting any new loan to the customer other than the loan already granted and intended to be rescheduled.
  - The rescheduled repayment period shall not exceed 3 years, apart from the original repayment period determined at a maximum of 15 years. In other words, the repayment period, including the rescheduling period, shall not exceed 18 years.
  - The bank shall prepare a statistical record of the reschedulement cases in chronological order.

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**GOVERNOR**

*Thu Al-Qi'da 14, 1425 H  
January 6, 2005*

**THE CHAIRMAN,**

**CIRCULAR NO.(2/BS/174/2005)  
TO ALL LOCAL BANKS**

With reference to the instructions concerning the rules and regulations for granting consumer loans and other installment loans, as notified to you on 22/4/1996 and as amended on 3/4/2000 and 22/10/2001.

We would like to advise you that the Central Bank of Kuwait Board of Directors has decided to cancel the maximum limit established for total consumer loans and other installment loans set out in the above mentioned instructions, and representing 12% of the private sector deposits, Certificates of Deposits in issue and other financial institutions deposits, in addition to 30% of bonds in issue and medium and long-term loans.

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**



**GOVERNOR**

*Ramadan 30, 1426 H  
November 2, 2005*

**THE CHAIRMAN,**

**"CIRCULAR TO ALL LOCAL BANKS"**

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

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

T) Circular regarding the discontinuation of the use of the database relevant to customers of consumer and other installment loans, against whom legal actions have been taken, and the use of the database of those customers operated by Credit Information Network Company (Ci-Net), instead affecting 1/1/2006.

**GOVERNOR**

*Moharram 8, 1427 H  
February 7, 2006*

**THE CHAIRMAN,**

**CIRCULAR NO. (2/BS/185/2006)  
TO ALL LOCAL BANKS & INVESTMENT COMPANIES\***

This has reference to Central Bank of Kuwait instructions dated 20/4/1996 and their subsequent amendments, regarding the rules and regulations for granting consumer and other installment loans by local banks and investment companies. We have noticed a variance in the interpretation of the concept of compliance with the maximum limit for consumer and other installment loans established for anyone single customer. We have also noticed that some local banks and investment companies grant such types of loans including a balloon payment that exceeds the borrower's salary. Therefore, we stress the requirement for complying with the following:

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

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\* Does not apply to banks and investment companies operating in compliance with Islamic Shari'a rules.

**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

U) Circular No. (2/BS/185/2006) on defining the concept of the maximum limit established for consumer and other installment loans, and on determining a maximum time period during which the last payment of such loans is made.

A) Consumer loans: The balloon payment amount may not exceed the total of the monthly installments for one year, while observing Central Bank of Kuwait instructions which stipulate that the maximum repayment period for the consumer loan is 5 years, and that the rescheduling period may not exceed one year, as per the rules of item “Fourth” of the relevant instructions <sup>(1)</sup>.

B) Installment loans: The balloon payment may not exceed the total of the monthly installments for 3 years, while observing Central Bank of Kuwait instructions which stipulate that the maximum period for the repayment of the installment loan is 15 years, and that the rescheduling period may not exceed 3 years, as provided for under item “Fifth” of the relevant instructions.

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

(1) Pursuant to circular No. (2/BS/IS/215/2008) issued on 24/3/2008, the balloon payment mechanism was discontinued in respect of consumer and installment loans granted by banks and investment companies, so as to ensure that all installments do not exceed the established maximum limit.

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS’ EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

U) Circular No. (2/BS/185/2006) on defining the concept of the maximum limit established for consumer and other installment loans, and on determining a maximum time period during which the last payment of such loans is made.

**GOVERNOR**

*Moharram 5, 1428 H  
January 24, 2007*

**THE CHAIRMAN,**

**INSTRUCTIONS TO ALL LOCAL BANKS  
CONCERNING INSURANCE CHARGES BORNE  
BY CONSUMER AND INSTALMENT LOANS CUSTOMERS**

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

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

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

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**GOVERNOR**

*Moharram 25, 1428 H  
February 13, 2007*

**THE CHAIRMAN,**

**CIRCULAR NO. (2/BS,IBS,IS,IIS/20/2007)  
CONCERNING THE PROCEDURES LOCAL BANKS  
AND INVESTMENT COMPANIES HAVE TO COMPLY WITH  
FOR RECTIFYING EXISTING VIOLATIONS OF THE RULES  
AND REGULATIONS FOR EXTENDING CONSUMER  
AND INSTALLMENT LOANS <sup>(1)</sup>**

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

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

(1) Circular No.(2/BS,IBS/208/2007) was issued in respect of credit cards issued by local banks, and this circular was categorized as item (I) in section 34 of this guide.

(2) Circular issued on 23/4/2008 concerning treatment some of practices related to installment loans.

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

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

**THE PROCEDURES LOCAL BANKS AND INVESTMENT COMPANIES  
HAVE TO COMPLY WITH FOR RECTIFYING THE EXISTING  
VIOLATIONS OF THE RULES AND REGULATIONS  
FOR EXTENDING CONSUMER AND INSTALLMENT LOANS\***

**First: General Concepts**

**1- The Accountable Lender:**

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

An example of this would be as follows:

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

**2- Financial Burdens:**

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

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

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

\* The term "loans", wherever mentioned in this memorandum, applies also to finance transactions.

**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

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

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

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

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

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

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

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

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

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



**3- The violation of exceeding the established repayment period: (5 years for the consumer loans and 15 years for the installment loans).**

It is a must to comply with Central Bank of Kuwait's instructions which provide that the repayment period shall not exceed 5 years for the consumer loan and 15 years for the installment loan. Only in the case of rescheduling the loan, the repayment period may be increased by one year for the consumer loan and 3 years for the installment loan.

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

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

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

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

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

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

13/2/2007

(1) Circular based on 3/5/2005 stress the certificated required to be submitted in this respect must be signed by both external auditing firms of banks.

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

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

**GOVERNOR**

*Safar 22, 1428 H  
March 12 2007*

**THE CHAIRMAN,**

**CIRCULAR NO. (2/BS/203/2007)  
TO ALL LOCAL BANKS\*  
CONCERNING AMENDMENTS TO THE RULES  
AND REGULATIONS FOR GRANTING CONSUMER  
AND OTHER INSTALLMENT LOANS**

I would like to advise you that Central Bank of Kuwait Board of Directors, at its meeting of 11/3/2007, resolved to introduce certain amendments to Central Bank of Kuwait instructions of 22/4/1996 concerning the rules and regulations for according consumer and other installment loans, as amended on 8/6/2004. The new amendments are as follows:

**1. Item No.(1)/Second of the subject instructions has been revised to read as follows:**

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

**2. Item No.(3)/Third of the subject instructions has been revised to read as follows:**

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

\* Other than banks which operate in compliance with the rules of the Islamic Shari'a, to which separate independent instructions were issued.

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

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

X) Circular No. (2/BS/203/2007) concerning amendments to the rules and regulations for according consumer and other installment loans.

**3. Item No. (4)/Third of the subject instructions has been revised to read as follows :**

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

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**GOVERNOR**

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

**THE CHAIRMAN,**

**CIRCULAR NO. (2/BS, IBS/205/2007)  
TO ALL LOCAL BANKS CONCERNING CONSUMER  
AND INSTALLMENT LOANS PREPAYMENT FEES**

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

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**Executive Director**

*Jumada Al-Akhir 16, 1428 H  
May 3, 2007*

**THE GENERAL MANAGER,**

**CIRCULAR TO ALL LOCAL BANKS  
AND INVESTMENT COMPANIES**

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

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

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

Best Regards,

**Executive Director of the Supervision Sector**

**Ibrahim Ali Al-Qadhi**

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS’ EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

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

**Executive Director**

*Ramadan 27, 1428 H  
October 9, 2007*

**M/S. AUDITORS**

**CIRCULAR TO BANKS AND  
INVESTMENT COMPANIES' EXTERNAL AUDITORS**

This has reference to the circular dated 3/5/2007, requesting certain banks and investment companies to provide us with duly audited detailed statements on their existing violations of the consumer and installment loans regulations, and the actions taken towards rectifying these violations. We also requested a certificate to be supplied to us from the auditors, **not later than end of September 2007**, indicating that all violations then existing were rectified in accordance with Central Bank of Kuwait's circular dated 13/2/2007.

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

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

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

Best regards

**Manager, Off-Site Supervision Department**

**Dr. Mohammad Yousef Al-Hashel**

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

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



**GOVERNOR**

*Thu Al-Qi'da 27, 1428 H  
November 19, 2007*

**THE CHAIRMAN,**

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

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

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

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

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

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(1) Circular Issued on 23/4/2008 concerning treatment some practices related to installment loans.

**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

BB) Circular regarding the engagement by banks of both external auditors to audit consumer and installment loans granted during the period from 16/1/2007 to 31/12/2007, and to present a report in this respect not later than the end of April 2008.

**GOVERNOR**

*Rabi Al-Awal 16, 1429 H  
March 24, 2008*

**THE CHAIRMAN,**

**CIRCULAR NO.(2/BS,IS/215/2008)  
TO ALL CONVENTIONAL BANKS AND INVESTMENT COMPANIES  
ON AMENDING THE RULES AND REGULATIONS OF GRANTING  
CONSUMER LOANS AND OTHER PERSONAL INSTALLMENT LOANS**

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

Central Bank of Kuwait's Board of Directors, at its session held 23/3/2008, resolved to amend the rules of granting consumer loans and personal installment loans, thus contributing to enhancing the positive role of these loans in socio-economic development, while avoiding the negative aspects and violations in granting such loans over the past period.

These instructions redefine the consumer and installment loans by determining their maturity, which is to be explicitly stipulated in the rules organizing the granting of consumer and installment loans, taking into consideration the text of Article (115) of the Commercial Law. According to the instructions, the balloon payment method has been prohibited, and the ratio of total installments of the loans granted to the customer from all lending parties, to the net continuous monthly salary or income, has been reduced. These instructions also reduced the maximum amount of the monthly installments of the loans granted to retired persons. In addition, the amendment also sets the controls relating to the interest rate ceiling on these loans and method of repayment, in line with the interest rate structure issued in this respect.

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

## **1. Definition of Consumer Loans and Installment Loans**

- Consumer loan means a **medium-term personal** loan granted to the customer for the purpose of financing the purchase of his personal needs of consumer and durable goods, or to cover education or medical treatment costs. This loan is repaid in monthly installments over a period not exceeding 5 years.
- Personal installment (housing) loan means a **long-term personal** loan utilized by the customer for non-commercial purposes, in particular for maintenance or purchase of a private residence. This loan is repaid in monthly installments over a period not exceeding 15 years.

## **2. Maximum Limits for Loans and Their Monthly installments**

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

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

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### **13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

CC) Circular No. (2/BS/IS/215/2008) concerning the amendment of the rules and regulations for granting consumer and other installment loans.

### **3. Interest Rates and Methods of Collection**

- Interest rate ceiling for consumer and installment loans shall not exceed 3% over the discount rate declared by Central Bank of Kuwait.
- Interest may not be deducted upfront, whether for consumer or installment loans.
- A fixed interest rate shall apply to consumer loans, in accordance with the contractual interest rates prevailing at the time of granting the loan.
- A fixed interest rate shall apply to installment loans as per the contractual interest rates prevailing at the time of granting, provided that the agreements made with customers for this purpose shall include a clause stating that the lending party shall review the applicable interest rates every five years within the loan maturity, whereby the applicable interest rate will be reviewed in line with Central Bank of Kuwait's declared rate by the end of every five years of installment loan maturity (amendment to commence effective from installment No. 61, then installment No. 121), and provided that the change in interest rate shall not exceed 2% (by increase or decrease) of the contractual interest rate applicable according the loan agreement before the change.

### **4. General Rules**

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

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**GOVERNOR**

*Rabi Al-Akhir 17, 1429 H  
April 23, 2008*

**THE CHAIRMAN,**

**CIRCULAR TO ALL CONVENTIONAL BANKS  
AND INVESTMENT COMPANIES ON RECTIFICATION OF  
CERTAIN PRACTICES RELATING TO INSTALLMENT LOANS**

This has reference to Central Bank of Kuwait's Circular dated 13/12/2007<sup>8</sup>, on the actions to be complied with by banks and investment companies while rectifying their existing violations of the rules and regulations of granting consumer and installment loans. Reference is also made to Central Bank of Kuwait's Circular dated 19/11/2007, obliging banks and investment companies to assign auditors to audit the consumer and installment loans granted during the period from 16/1/2007 to 31/12/2007, in case of banks, and during the period from 23/1/2007 to 31/12/2007, in case of investment companies.

Practices of certain parties caused the maturities of some installment loans to prolong, exceeding the contractual maturities agreed with concerned customers. In addition, these maturities – as for loans granted after the issuance of Central Bank of Kuwait's instructions dated 8/6/2004 – extended to beyond the maximum limit prescribed under these instructions for repayment period (15 years, extendable to another 3 years in case of rescheduling).

Referring to the meetings and communications made in respect of the method of treatment of these loans, and, in order to unify the concepts and procedures that must be complied with by the concerned banks and investment companies, while treating these cases, the following must be complied with:

**I: Cases Covered by Treatment:**

Installment loans extended by conventional banks and investment companies during the period from 31/3/2001 to 2/7/2006, existing in the books of banks/investment companies, as of the said date, whether regular or irregular, including installment loans subject to legal actions.

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13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS

DD) Circular regarding the treatment of some practices related to installment loans.

## **II: Treatment Procedures to be Complied with:**

### **1. Rectifying the situation as follows:**

- A. As for loans granted prior to the issuance of Central Bank of Kuwait instructions dated 8/6/2004, maturities of these loans shall be reinstated to the maturities agreed upon with customers.
- B. As for loans granted after the issuance of the aforementioned Central Bank of Kuwait's instructions, maturities of these loans shall be reinstated to the maturities agreed upon with customers, up to a maximum of 15 years, plus three years, as a maximum, if needed.

Current installment amount shall be fixed throughout the remaining period of the loan maturity, up to full repayment. The concerned party (bank or investment company) shall bear the financial burdens arising from the rectification, as will be mentioned below.

- 2. You should provide us, no later than end of May 2008, with a table (loaded on CD), covering data of customers whose loans situation was rectified, as shown in the attached form. Such data shall be re-submitted, no later than end of July 2008, duly audited by external auditors, accompanied by a certificate issued by them, indicating that all these cases were rectified in accordance with the above procedures.
- 3. Rectification costs shall be charged to the income statement for 2008. Your bank/company is allowed to add to the income statement an equal portion of the surplus in general provisions, resulting from the implementation of Central Bank of Kuwait's circular dated 12/3/2007 whereby the ratios of these provisions were reduced. The aforementioned remaining surplus – if any – shall not be disposed of, unless with a prior consent of Central Bank of Kuwait.

All matters contained in this circular must be fully complied with.

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

**GOVERNOR**

*Jumada Al-Aula 2, 1429 H  
May 7, 2008*

**THE CHAIRMAN,**

**CIRCULAR NO.(2/BS/IBS/IS/IIS/216/2008)  
TO ALL LOCAL BANKS AND INVESTMENT COMPANIES,  
AMENDING TABLES OF CONSUMER AND OTHER  
INSTALLMENT LOANS (HOUSING)\***

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

- A. Total consumer loans by loan category (Form AM3).
- B. Total non-consumer, installment loans, by purpose of loan (Form AM20).
- C. Total consumer and installment loans (Form AM23).

During the periodic review by Central Bank of Kuwait, some comments have been noticed on the information given in these statements. Therefore, it has been resolved to replace the previously applicable forms in this regard, only as mentioned above, with new Forms (AM3AK AM3B, AM20A, AM20B, and AM23), uploaded on the attached CD. Glossary of the terms and clauses contained in these forms were uploaded on the same CD.

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

With my best wishes,

**SALEM ABDUL-AZIZ AL-SABAH**

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**13 - INSTRUCTIONS CONCERNING RULES AND REGULATIONS FOR BANKS' EXTENSION OF CONSUMER LOANS AND OTHER INSTALLMENT LOANS**

EE) Circular No. (2/BS,IBS,IS,IIS/216/2008), amending the tables of consumer and other installment (housing) loans.



AM3.A

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

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

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

Balance Categories Excluding Interest (Loan Principal)	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)							
	No. Of Cust. **	No. Of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust. **	No. Of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions			
			W/O Int. ***	W Int ****	No. Of Cust **	No. Of Lns	Balance				No. Of Cust **	No. Of Lns	Balance		No. of Cust **	No. of Lns			Balance					
							W/O Int. ***	W/ Int. ****					W/O Int. ****	W/ Int. ****					W/O Int. ****	W/ Int. ****				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (1+9)	18 (2+10)	19 (3+11)	20 (4+12)	21 (5+13)	22 (6+14)	23 (7+15)	24 (8+16)
Up to 1000																								
1001-3000																								
3001-5000																								
5001-7000																								
7001-9000																								
9001-11000																								
11001-13000																								
13001-15000																								
Total																								
Total No. W/O Repetition**																								

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

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

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

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

AM3.B

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

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

Purpose	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)							
	No. Of Cust. **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions				No. Of Cust **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions			
			W/O Int. ***	W Int. ***	No. of Cust **	No. Of Lns	Balance				No. of Cust **	No of Lns	Balance		No. of Cust **	No. of Lns			Balance					
							W/O Int. ***	W/ Int. ****					W/O Int. ***	W/ Int. ****					W/O Int. ***	W Int. ****	W/O Int. ***	W/ Int. ****		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (1+9)	18 (2+10)	19 (3+11)	20 (4+12)	21 (5+13)	22 (6+14)	23 (7+15)	24 (8+16)
Car purchase																								
Furniture purchase																								
Education expenses																								
Treatment																								
Other (specify)																								
Total																								
Total No. W/O Repetition**																								

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

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

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

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

AM20.A

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

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

Bank/Company:

(KD '000)

Purpose	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)									
	No. Of Cust. **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions				No. Of Cust **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions					
			W/O Int. ***	W Int ****	No. of Cust **	No. of Lns	Balance				No. of Cust **	No. of Lns	W/O Int. ***	W Int. ****	No. of Cust **	No. of Lns			W/O Int. ***	W Int. ****	No. of Cust **	No. of Lns	W/O Int. ***	W Int. ****		
							W/O Int. ***	W/ Int. ****																	W/O Int. ***	W/ Int. ****
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (1+9)	18 (2+10)	19 (3+11)	20 (4+12)	21 (5+13)	22 (6+14)	23 (7+15)	24 (8+16)		
House repair/ building completion																										
House purchase/ building																										
Land purchase for building																										
Other (specify)																										
Total																										
Total No. W/O Repetition**																										

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

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

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

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

AM20.B

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

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

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

Balance Categories Excluding Interest (Loan Principal)	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)									
	No. Of Cust. **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions				No. Of Cust **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions					
			W/O Int. ***	W Int ****	No. of Cust **	No. of Lns	Balance				No. Of Cust **	No. of Lns	W/O Int. ***	W/ Int. ****	No. of Cust **	No. of Lns			W/O Int. ***	W/ Int. ****	No. of Cust **	No. of Lns	W/O Int. ***	W/ Int. ****		
							W/O Int. ***	W/ Int. ****																		
																									W/O Int. ***	W/ Int. ****
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (1+9)	18 (2+10)	19 (3+11)	20 (4+12)	21 (5+13)	22 (6+14)	23 (7+15)	24 (8+16)			
Up to 5000																										
5001-15000																										
15001-25000																										
25001-35000																										
35001-45000																										
45001-55000																										
55001-65000																										
65001-70000																										
Total																										
Total No. W/O Repetition**																										

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

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

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

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

AM23

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

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

Bank/Company:

(KD '000)

Balance Categories Excluding Interest (Loan Principal)	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)							
	No. Of Cust. **	No. of Lns	Blnce		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions				No. Of Cust **	No. of Lns.	Blnce		Including Loans Subject to Legal Actions			
			W/O Int. ***	W Int ****	No. of Cust **	No. of Lns	Balance				No. of Cust **	No. of Lns	Balance		No. of Cust **	No. of Lns			W/O Int. ***	W Int. ****	No. of Cust **	No. of Lns	W/O Int. ***	W Int. ****
							W/O Int. ***	W/ Int. ****					W/O Int. ***	W Int. ****										
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
																	(1+9)	(2+10)	(3+11)	(4+12)	(5+13)	(6+14)	(7+15)	(8+16)
Up to 1000																								
1001-3000																								
3001-5000																								
5001-7000																								
7001-9000																								
9001-11000																								
11001-13000																								
13001-15000@																								
15001-25000																								
25001-35000																								
35001-45000																								
45001-55000																								
55001-65000																								
65001-70000																								
Total																			#					
Total No. W/O Repetition**																	#							

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

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

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

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

@ Including consumer and installment loans up to tier KD 15000.

# Must tally with the corresponding number in Attachment 4 of consumer and installment loans under credit facility rating policy table(financing operations).