

3- Islamic Banks Branches

A) Rules and regulations for opening Islamic Banks Branches within and outside Kuwait.

Instructions No(2/IBS/114/2003)
“Rules And Regulations For Opening Branches For The Local Islamic Banks In And Outside KUWAIT”

In line with the Central Bank’s responsibility to ensure sound progress of the banking business in accordance with the rules of Law No. 32 of the year 1968 Concerning Currency, The Central Bank of Kuwait and The Organization of Banking Business, and its amendments, and since Central Bank of Kuwait is the competent authority to consider local banks applications for opening branches in various areas of Kuwait and abroad.

The Central Bank of Kuwait has established the following rules and regulations that local Islamic bank have to comply with when they want to open banking branches within and outside the State of Kuwait.

First: Opening Branches In Kuwait

The bank desiring to open a local bank branch, shall submit a written application to the Central Bank of Kuwait in this respect, together with an economic feasibility study for opening the branch, showing the extent to which the area in which the bank is applying to open a branch, is in need of banking services. Such a study shall cover at least the following points:

- 1) The objectives of opening the branch.
- 2) How far the area in which the branch is to be opened is in need of banking services, and the basis on which the branch site has been selected.
- 3) Expectations regarding the increase of the demand for banking services in that area, and the period after which the business activity of the branch will be considered profitable.
- 4) The extent to which the area needs the services of more than one branch, if any other bank desires to open a branch there.
- 5) The impact of the activities of the requested branch on the activities of other branches of the bank, as well as on its head office.

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- 6) The financial assumptions of the requested branch, based on the new branch's anticipated business size, its development, construction cost, operating cost and results over an appropriate time period not less than three years.
- 7) Any other matters the bank has taken into consideration when taking the decision to open the branch.

Second : Requests Received by Central Bank Of Kuwait from Government Authorities And Institutions To Open Bank Branches In Specific Areas

- a) In the event the Central Bank receives a request from any of the government authorities expressing its desire to open branches in specific areas, the Central Bank of Kuwait shall pass this request to the Union of Kuwaiti Banks, which will in turn circulate it to the local banks in order to enquire on their desire in this respect.
- b) In the event more than one bank expresses its willingness to establish a bank branch in the selected area, the Central Bank of Kuwait shall evaluate them using a number of regulatory standards, namely, the capital of each branch (shareholders equity/number of operating and under-construction branches inside and outside Kuwait).
- c) After selecting the bank, the Central Bank shall advise the requesting government authority of name of the selected bank, as well as advise the selected bank to communicate with the aforesaid authority in order to agree upon all the matters normally negotiated in similar cases.
- d) After completing the procedures mentioned under item (C) above, respective bank shall request the Central Bank of Kuwait's approval to establish the proposed branch, and shall submit with the application documents evidencing the completion of the aforesaid procedures, as well as the economic feasibility study for opening the said branch in the manner set forth under item "First" above.

Third : Procedures For Opening Branches Outside Kuwait

- a) In compliance with the Central Bank of Kuwait's relevant instructions, bank should inform the Central Bank before commencing any communication with financial or banking supervisory authorities in other countries.

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b) The bank must submit an application to the Central Bank of Kuwait Requesting the approval to establish the proposed branch outside Kuwait, along with the economic feasibility study for establishment of the branch which should include all the relevant essential information, most importantly the following:

- Financial estimates of the anticipated business size of the branch, the cost of its construction, the branch's business cost and operational results over a reasonable time period not less than three years.
- The objectives for establishing the branch and the anticipated benefits.
- The relations and size of the trade, financial and tourism exchange with the host country.
- Necessary information on the general economic and political conditions of the host country.

Fourth: The Central Bank of Kuwait, when considering the application of any of the banks to open a new bank branches - whether inside or outside Kuwait shall take into consideration a number of regulatory standards, such as:

- a) Assessment of the bank's general position.
- b) Adequacy and efficiency of the bank's internal control system, and the system of information flow between the branches and the bank's management.
- c) Extent of the bank's adherence to regulatory laws and instructions passed by the Central Bank, and the absence of any violations with tangible negative impacts or of a recurring nature.
- d) Any other related considerations and matters.

Fifth : If Central Bank of Kuwait approves the application of any bank, such an approval shall be considered as initial and valid for six months from the date of issuance for the branches to be opened in Kuwait, and for nine months for the branches to be opened outside Kuwait. The respective bank shall commence with taking the necessary actions towards opening the branch before the expiry of the mention period.

If the bank does not manage to open the new branch within the fixed period mentioned above, then the bank shall have to apply to Central Bank of Kuwait requesting the extension of the approval period, before its expiry date, giving the justifications for extending the period. In the event of non-compliance with this rule, the approval shall be automatically cancelled on its expiry date.

Sixth : When the bank completes the preparations for opening the new branch and fixes the opening date, it will submit an application to the Central Bank of Kuwait requesting amendment of the bank's data in the Banks Register to reflect the entry of the new branch in the register at least 15 days before the opening date. This application shall be submitted together with copies of the licences and approvals obtained from competent authorities

Seventh: Business at any new branch should not commence before registering the new branch in the Banks Register with the Central Bank of Kuwait.

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