CENTRAL BANK OF KUWAIT

THE TWENTY FOURTH ANNUAL REPORT

FOR THE FISCAL YEAR 1995/96

The Annual Report of the Central Bank of Kuwait for the Fiscal Year 1995/96

INTRODUCTION

During the fiscal year 1995/96, the Central Bank of Kuwait (CBK) pursued its efforts aimed at

strengthening the monetary stability in the country and adjusting the directions of its monetary

and banking policies, so as to ensure the soundness and efficiency of the domestic banking and

financial system, foster development and adjust the course of the economy. The activity of the

CBK during the fiscal year 1995/96 focused on drawing and implementing the monetary policy,

organizing its supervision over the banking and financial system operations, guiding the credit

policy of the lending institutions subject to its control and regulating the levels of domestic

liquidity, all in furtherance of the efforts aimed at achieving the general economic objectives.

The CBK also pursued the enhancement of its data base along with upgrading the quality and

comprehensiveness of the monetary and financial statistics published in its periodical reviews,

through the application of monetary and banking concepts in line with the relevant

recommendations of international institutions.

From another perspective, the CBK continued its monitoring of domestic and international

monetary and economic developments, along with preparing the necessary reports and studies

assessing the trends of these developments and analyzing their impacts on the domestic

monetary and banking situation in particular and the economy in general. In line with its role of

financial and economic advisor to the government, the CBK provided its advice and contributed

to the preparation of studies, some of which led to the promulgation of new legislations and the

amendment of existing ones.

This report provides an outline of the significant domestic monetary and banking developments

during the fiscal year 1995/96, followed by a brief review of the most important measures taken

and operations performed by the CBK during that period, then the Auditors report on the

balance sheet statement as on 30 June 1996, and the profit and loss account of the CBK's

activities for the fiscal year then ended.

First: An Outline of the Main Monetary and

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Banking Developments

1- Monetary Developments:

The CBK attaches a special importance to the domestic monetary developments, through drawing and implementing its monetary policy and directing the credit policy of banks and domestic investment companies to achieve the targeted monetary stability. This report presents the most significant monetary developments in the domestic economy during the fiscal year 1995/96, through some major indicators, as follows:

A- The KD Interest Rates:

In its concern to keep the KD interest rates both in line with the developments in international interest rates and in harmony with the domestic economic conditions, the CBK continued to monitor and guide the developments in domestic interest rates in furtherance of the monetary policy objectives of enhancing the monetary stability in the country and accommodating the local currency.

Worth mentioning too is the almost constant decline in interest rates on major currencies during the fiscal year 1995/96, as a result of the slackening in economic growth witnessed by some industrial countries during that period and the endeavors of the monetary authorities there to bolster the elements of this growth while keeping inflationary pressures at relatively low levels.

Developments in domestic interest rates show a marked decrease in the interest rates on KD deposits for all terms with local banks, during the fiscal year 1995/96. For example, the average interest rate on three-month term deposits decreased to 6.53% in June 1996 compared to 7.25% in the corresponding month of the previous fiscal year.

Furthermore, the interest rates on interbank KD deposits of local banks decreased during that period, For example, the average interest rate on three-month deposits decreased to 7% in June 1996 compared to 7.63% in the corresponding month of the previous fiscal year. This was accompanied by a decrease in the value of total transactions in the interbank

deposit market of local banks to KD 10.8 billion during the fiscal year 1995/96 against KD 13.3 billion during the previous fiscal year.

The monthly average interest rates on the three-month and six-month Kuwait treasury bills decreased during the fiscal year 1995/96 to 6.99% and 7.06% respectively, in June 1996, compared to 7.43% and 7.69% in the corresponding month of the previous fiscal year.

In this regard, the CBK kept the discount rate unchanged during the fiscal year 1995/96; noting that the last amendment to the discount rate, on 17 April in the previous fiscal year, raised it by a quarter percentage point to 7.25%. On the other hand, the CBK continued to monitor and follow up the developments in interest rates in the domestic monetary market, and to make use of the available monetary policy instruments in intervening as needed to influence and direct these rates in conformity with the domestic and international economic developments, in furtherance of the main objectives of the monetary policy.

B- Money Supply:

As of the beginning of the fiscal year 1995/96, the CBK started adopting a broader approach in assessing the domestic monetary situation. Accordingly, the specialized banks and the Kuwait Finance House were included in the monetary equation of the banking sector. Thus, the term "local banks" was expanded to encompass the commercial and specialized banks along with the Kuwait Finance House. Furthermore, the CBK adopted a broader concept in measuring money supply (M3) which now includes the money supply in its broad definition (M2) in addition to the private sector deposits with investment companies that accept deposits by virtue of their articles of association. As a result of these developments, the methods of money supply measurement were adjusted to conform with the new adopted concepts.

Available data show that money supply (in its broad definition M2) witnessed a relative stability at end of the fiscal year 1995/96 compared to the end of the previous fiscal year, as it slightly decreased by KD 63.5 million (or 0.9%) to KD 7380 million against KD 7444 million at end of the previous fiscal year. This slight decrease is the outcome of the increase in Quasi-money by KD 208.1 million (or 3.5%) along with the slightly higher decrease in Money (M1) by KD 271.6 million (or 18.9%). This decrease in Money (M1) resulted

mainly from the decline in sight deposits by KD 278.6 million (or 25.8%), since there were no tangible changes in the remaining components of Money (M1).

Concerning money supply components, the foreign currency deposits with local banks rose by an equivalent of KD 50.5 million or 3.9%, while KD deposits rose by KD 157.6 million or 3.3%, due to the rise in savings deposits (KD 52.4 million or 5.1%), time deposits (KD 99 million or 2.7%) and certificates of deposit (KD 5.9 million or 120.4%).

The above developments in money supply during the fiscal year 1995/96 show that despite the relative stability in money supply in its broad definition (M2), the detailed data indicate a shift in the flow of funds from sight deposits to other longer-term deposits. This was the outgrowth of the monetary policy directions aimed at enhancing confidence in the domestic economy.

Concerning the factors affecting changes in money supply, both net domestic assets and net foreign assets showed no substantial changes at end of the fiscal year 1995/96 compared to end of the previous fiscal year, as they slightly decreased by KD 55.5 million and KD 8.1 million respectively.

C- The KD Exchange Rate:

Despite substantial changes in the exchange rates of major currencies in the world exchange markets during the fiscal year 1995/96, the KD exchange rate against these currencies was characterized, in comparison, by a marked relative stability. This relative stability can be shown by analyzing the available data on the fluctuations of the US dollar exchange rate against the Kuwaiti dinar which remained within tight margin during that fiscal year, as the differential between the highest and lowest exchange rates of the US dollar against the dinar did not exceed 1.5% or 4.45 fils. Meanwhile, the US dollar fluctuated against major currencies within broad margins, as the differential between the lowest and highest exchange rates of the US dollar reached 24% against the Japanese yen, 11.9% against the Swiss franc, 11.6% against the deutsche mark, 7.9% against the French franc and 5.9% against the sterling pound.

This relative stability in the KD exchange rate is attributable to the CBK continued implementation of the KD exchange rate policy based on pegging the KD exchange rate to a

special weighed basket of currencies of countries that have major trade and financial relations with the State of Kuwait. This policy has proved its effectiveness in maintaining the relative stability in the KD exchange rate against major currencies ever since it was first applied in March 1975, more than twenty years ago.

D- Bank Credit:

During the fiscal year 1995/96, the CBK pursued its efforts in guiding the credit policies of banks and investment companies subject to its supervision, so as to ensure their sound abidance by credit principles and procedures in extending credit.

The following table shows the development of credit facilities, including consumer loans, extended by local banks to residents at the end of the fiscal year 1995/96, and their relative distribution by sector.

| Particulars | 1995/96 | | |
|-----------------------------------|-----------------------|-------------------------|--|
| | Value (Million KD) | Relative Importance (%) | |
| Total Extended Credit Facilities: | 2192 | 100.0 | |
| Consumer Loans | 536 | 24.5 | |
| Trade | 517 | 23.6 | |
| Personal Facilities | 489 | 22.3 | |
| Construction | 167 | 7.6 | |
| Industry | 141 | 6.4 | |
| Real Estate | 130 | 5.9 | |
| Others | 212 | 9.7 | |

The above table shows that the KD credit facilities extended to residents during the fiscal year 1995/96 totalled KD 2192 million, distributed by sector as follows: consumer loans (KD 536 million or 24.5%), trade (KD 517 million or 23.6%), personal facilities (KD 489 million or 22.3%), construction (KD 167 million or 7.6%), industry (KD 141 million or 6.4%), real estate (KD 130 million or 5.9%). Meanwhile, the other sectors received KD 212 million (9.7%) of the total KD credit facilities extended to residents during the mentioned fiscal year.

The balance of actually utilized cash credit facilities reached KD 2741 million at end of the fiscal year 1995/96 against KD 2113 million at end of the previous fiscal year, i.e. an increase of KD 628 million or 29.7%. This balance was distributed among the domestic economic sectors, at end of the fiscal year 1995/96, as follows: personal facilities (KD 1274 million or 46.5%, out of which the consumer facilities accounted for KD 517 million, i.e. 18.9% of the utilized cash credit facilities), trade (KD 454 million or 16.6%), real estate (KD 302 million or 11%), industry (KD 233 million or 8.5%), construction (KD 178 million or 6.5%), non-bank financial institutions (KD 128 million or 4.7%), agriculture and fishing (KD 10 million or 0.4%) and "other" sector (KD 162 million or 5.9%).

E- Issuing Public Debt Instruments and Activity in their Secondary Market:

During the fiscal year 1995/96, the CBK issued -on behalf of the Ministry of Finance- 66 issues of three-month and six-month treasury bills totalling KD 4075.2 million. Meanwhile, 69 issues of these bills valued at KD 4584.1 million matured during the same year. Thus, the outstanding balance of treasury bills fell by KD 508.8 million (24.3%) to KD 1588.5 million at end of the fiscal year 1995/96.

Furthermore, the CBK made nine issues of one-year term treasury bonds totalling KD 1104 million during the same fiscal year. Meanwhile, six previous treasury bond issues valued at KD 775 million matured, bringing the outstanding balance of treasury bonds to KD 1104 million, i.e. an increase of KD 329 million or 42.5%.

As a result of the above, the outstanding balance of public debt instruments (treasury bills and bonds) fell to KD 2692.5 million at end of the fiscal year 1995/96 against KD 2872.3 million at end of the previous fiscal year, i.e. a decrease of KD 179.8 million or 6.3%.

The CBK transactions in the secondary market for public debt instruments (treasury bills and bonds) with banks and domestic investment companies during the fiscal year 1995/96 decelerated compared to the previous fiscal year. The total value of these transactions (buying and selling) amounted to KD 1982.4 million against KD 3074.3 million in the previous fiscal year. The value of sold instruments reached KD 972.6 million, while the value of purchased instruments reached KD 1009.8 million. In this context, the value of treasury bill re-purchase agreements carried out among the CBK, local banks and domestic investment companies amounted to KD 594 million during the fiscal year 1995/96 against KD 1277 million for the previous fiscal year.

F- The Purchased Debts and their Collection:

During the fiscal year 1995/96, the Law No. 80 of 1995 was issued on 21 August 1995, stipulating the amendment of certain provisions of the Law No. 41 of 1993 with regard to the purchase by the State of certain debts and the means of their collection. In line with this amendment, the Council of Ministers issued on 26 September 1995 the decision No. 804 of 1995 amending certain provisions of the executive by-law of the law No. 41 of 1993, along with issuing the seventh and eighth chapters of this by-law which illustrates the executive procedural details of the provisions of that Law.

The amendment of the provisions of the above mentioned Law allowed the debtors who selected the immediate cash repayment option to repay their debts on five equal annual installments, the first of which falling due within a period not exceeding 6 December 1995, while bearing a debt service charge calculated as a percentage- determined by the CBK- of the outstanding balance of the debt. Available data on the repayment of purchased and managed debts as at the end of the fiscal year 995/96 -in the context of the CBK's monitoring of the above mentioned first payment- show the following:

- * The number of complying clients who selected the immediate cash repayment option reached 8852 clients (83% of the clients whose debts were purchased and managed). These clients repaid KD 737 million (77% of their total outstanding debt of KD 4856 million as on 1/8/1990).
- * The number of clients who repaid their full debts up to the end of the fiscal year 1995/96 reached 6540 clients (73.9% of the total number of complying clients). These clients repaid KD 281 million (37.1% of their total purchased and managed debts). Accordingly, the value of debts considered to be fully repaid totalled KD 758 million (11.2% of the total value of purchased and managed debts as on 1/8/1990).
- * The number of clients who settled in cash a portion of their debts up to the end of the fiscal year 1995/96 reached 2312 clients (22% of the total clients whose debts were purchased and managed). These clients repaid KD 456 million, while their total debts reached KD 1058 million (17% of the total value of purchased and managed debts as on 1/8/1990).

* Clients who did not comply with the settlement of the first payment up to the end of the fiscal year 1995/96 numbered 741, i.e. (41% of the total non-complying clients), and were referred by the banks to the public prosecution. Their total debts as on 31/12/1991 reached KD 1342 million, out of which an amount of KD 17 million was collected up to the end of the fiscal year 1995/96.

2- Banking Developments:

The aggregate balance sheet of local banks witnessed positive developments during the fiscal year 1995/96 which indicates that local banks are in a transitional period -following the rationalization of their positions- and heading towards a balanced growth based on a more developed professional structure with regard to sources of funds and their uses.

The aggregate balance sheet of local banks reached KD 11194.2 million at the end of the fiscal year 1994/95, i.e. a decrease of KD 570.5 million or 4.8% below the corresponding figure of KD 11764.7 million at the end of the previous fiscal year, the highest since 1991.

The decrease in the aggregate balance sheet of local banks at end of the fiscal year 1995/96 is the outcome of several changes in various elements of this balance sheet, which are considered to have a positive effect on its structural equilibrium. The following are the most prominent of these changes:

- * A marked decrease of KD 627.7 million (11.1%) in claims on the government to KD 2740.7 million. This decrease was the outcome of the decline in the local bank holdings of both public debt instruments by KD 33.5 million (1.7%) to KD 1898.4 million and Debt Purchase Bonds by KD 594 million (15.9%) to KD 3142.2 million, following the precipitated redemption of a portion of these bonds against cash collections from the above mentioned debt repayment process, in addition to the elimination of the outstanding balance of the portfolio of discounted Public Acquisition Bonds with these banks, which totalled KD 0.2 million at the end of the previous fiscal year.
- * A substantial decrease in both items of "other assets" (of KD 353.7 million or 42.5%) and "other liabilities" (of KD 437.9 million or 24.1%) to reach KD 478.9 million and KD 1380.4 million, respectively.
- * A marked increase of KD 652 million or 27.3% to KD 3036.7 million in claims on the private sector. This increase resulted from the increase in both the credit facilities

extended to residents by KD 627.9 million (or 29.7%) to KD 2740.7 million, and the investments by local banks in local shares and bonds by KD 24.1 million (or 8.9%) to KD 296 million.

- * A growth of KD 122.9 million or 11.2% in the shareholders' equity in local banks to KD 1222.4 million.
- * A rise of KD 28.5 million (2.1%) in the net foreign assets of these banks to KD 1366.2 million, resulting from a rise in foreign assets (by KD 41.4 million or 2.1% to KD 2032.8 million), higher than the rise in foreign liabilities (by KD 12.9 million or 2% to KD 666.6 million).
- * A decrease of KD 70.7 million (1%) in private sector deposits with local banks to KD 7018.6 million, against a rise of KD 51.7 million (14.5%) in the government deposits with these banks to KD 407.8 million.

Second: Significant Measures Taken by the Central Bank of Kuwait During the Fiscal Year 1995/96

During the fiscal year 1995/96, the CBK continued to take measures aimed at enhancing supervision and control over banking and financial institutions, along with guiding their credit policy so as to ensure their abidance by sound professional practices, in line with the CBK's efforts in regulating domestic liquidity. Measures taken by the CBK in this regard were signified in the issuing of the decisions and instructions to the banking and financial units subject to its supervision, the most significant of which are as follows:

- 1- The by-law issued on 4 July 1995 concerning the inspection system applied to the banking and financial units subject to the control of the CBK.
- 2- The new instructions issued to local banks and investment companies regarding the rules and regulations for extending consumer loans and facilities as well as other installment loans, so as to tighten supervisory rules and controls over the extension of these loans and facilities and their settlement. These instructions were issued on 12 December 1995 and amended on 22 April 1996.
- **3-** The endorsement of a system, at the end of 1995, for treating liquidity surplus by accepting deposits from local banks.

4- The instructions issued to local banks relevant to rules and controls to be observed in extending credit facilities to members of their boards of directors, in order to ensure that these directors are not granted preferential advantages due to their posts, along with avoiding unusual risks which may result from extending these facilities and negatively reflect on the financial position of the bank.

From another perspective, the CBK continued to enhance its data base and financial statistics to upgrade the comprehensiveness, objectivity and clarity of data. This is being achieved by developing the statistical bulletins issued periodically by the CBK, so as to provide greater benefit to users.

Third: Major Operations Performed by the CBK

- 1- The monthly average volume of currency and coins issued during the fiscal year 1995/96 amounted to KD 407 million. The currency issued reached its highest level during that fiscal year (KD 466.8 million) at the end of April 1996, and its lowest level (KD 384.2 million) in September 1995.
- **2-** During the fiscal year 1995/96, the CBK carried out discount and rediscount operations of commercial papers presented to it by local banks. These operations totalled KD 49.4 million against KD 339.3 million during the previous fiscal year.
- **3-** The total value of operations of the banking sector carried out through the Clearing Room in the CBK during the fiscal year 1995/96 rose to KD 4.7 billion, i.e. an average KD 2727.2 per document, compared to a total of KD 4.3 billion, i.e. an average of KD 2547.7 per document during the previous fiscal year.
- **4-** During the fiscal year 1995/96, the CBK processed 9982 payment orders and banking drafts amounting to KD 899.2 million compared to 8964 drafts valued at KD 926.4 million during the previous fiscal year.
- 5- In the context of the system endorsed by the CBK for the acceptance of deposits from local banks to regulate domestic liquidity, the total value of deposits accepted by the CBK during the fiscal year 1995/96 amounted to KD 165.5 million.

6- During the fiscal year 1995/96, the CBK processed all foreign banking transactions for the ministries and government institutions, concerning documentary credits as well as bills and drafts for collection, as shown in the following table (value in KD):

| Particulars | No. | Value |
|-------------------------------|------|--------------|
| Documentary Credits: | | |
| Opened: | 511 | 9171647,478 |
| Local | - | - |
| Foreign | 511 | 9171647,478 |
| Paid: | 794 | 54004478.213 |
| Local | - | - |
| Foreign | 794 | 54004478.213 |
| Amendments: | 165 | |
| Local | - | |
| Foreign | 165 | |
| Bills for Collection: | | |
| In-coming | 1349 | 5271536.467 |
| Paid-up | 1015 | 3833773.845 |
| Drafts for Collection: | | |
| For Collection Purchased | 322 | 1336295.718 |

7- During the fiscal year 1995/96, the CBK continued issuing public debt instruments on behalf of the Ministry of Finance and pursued its buying and selling operations in the secondary market for these instruments, as mentioned above with regard to monetary developments.

Fourth: The Labour Force at the CBK:

During the fiscal year 1995/96, the CBK pursued its efforts in developing human resources in conformity with the directions of the State general policy with regard to upgrading the efficiency of staff members, qualifying national bankers and increasing the percentage of nationals in the total labour force. The CBK aims, through its employment and training policies, to attract qualified Kuwaiti cadres to join the bank and encourage them to take up work in the local banking industry. The following are among the most significant developments in manpower at the CBK during the fiscal year 1995/96:

1- The total labour force at the CBK numbered 655 at end of the fiscal year 1995/96, compared to 606 at end of the previous fiscal year, with nationals constituting 65% of this total. This

percentage rises to 75% if unskilled labour is excluded. Meanwhile, the percentage of Kuwaitis reached 100% in leadership posts, and 97% in supervisory posts, during that fiscal year.

- 2- During the fiscal year 1995/96, 76 staff members were appointed at the CBK, of which 48 Kuwaitis (63%). Also, 25 Kuwaiti graduates holding university degrees were accepted for grooming as CBK staff members, while 12 Kuwaiti trainees were confirmed in the jobs they were nominated for in the CBK departments and offices. Thus, the total number of appointed staff members at the CBK during the fiscal year 1995/96 reached 88, of which 60 Kuwaitis (68%).
- **3-** In the context of the annual training plan of the CBK, 19 training programmes were implemented during the fiscal year 1995/96, and 222 staff members benefited from these inhouse training programmes which were prepared in cooperation with specialized training bodies.

Furthermore, 72 staff members were sent on 42 specialized training courses held in Kuwait at government and private training institutions. On the other hand, 26 staff members were sent to attend 18 training courses at international banking institutions abroad.

It is noteworthy that 43 staff members of the CBK participated during the fiscal year 1995/96 in various official conferences, seminars and meetings held at the regional and international levels.

4- In the area of the educational and training activities held in cooperation with the Institute of Banking Studies (IBS) during the fiscal year 1995/96, 31 staff members of the CBK benefited from the educational syllabuses presented by the IBS according to the free selection syllabus system. Meanwhile, twelve staff members were on IBS enrollment for the high diploma in banking studies during that fiscal year (three of them were in the second year, and all successfully graduated from the IBS).

Furthermore, 62 CBK staff members joined specialized training programmes in the area of banking industry at the IBS, while 59 staff members took secretarial and English Language courses at the IBS during the fiscal year 1995/95.

Fifth: The Central Bank of Kuwait Balance Sheet
As at the End of the Fiscal Year 1995/96, and
Its Profit & Loss Account for that Year

REPORT OF THE AUDITORS

We have examined the financial statements of the Central Bank of Kuwait (CBK). Our

examination included such tests of the accounting records and such other auditing procedures

as we considered necessary. We obtained all the information and explanations which we

deemed necessary for the purpose of our examination.

In our opinion, the financial statements give a true and fair view of the state of affairs of the

CBK on 30 June 1996 and of the results of its operations for the year then ended, in compliance

with Law No. 32 of 1968 as amended by Law No. 130 of 1977.

Furthermore, in our opinion, proper books of account have been kept and the financial

statements are in accordance therewith, and an inventory was duly carried out.

Ahmed Mohammad Al-Aiban

Register of Accountants & Auditors

License No. 65 A - Kuwait Al-Aiban, Al-Osaimi & Partners

of ERNST & YOUNG

15 July 1996

Kuwait

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CENTRAL BANK OF KUWAIT

BALANCE SHEET AS ON 30 JUNE 1996 (KD)

| | : ===== | 20 T | | |
|--|---------|---------------|---------------|--|
| Assets: | | 30 June | 30 June | |
| | Note | 1996 | 1995 | |
| Gold | | 31,732,140 | 31,732,140 | |
| Cash, and Current and Call Accounts in Foreign Currency with Banks and Financial Institutions | | 67,417,070 | 274,242,684 | |
| Investments and Deposits in Foreign Currency | 3 | 1,025,908,101 | 854,729,059 | |
| Deposits, Loans and Current Accounts with Local Banks and Financial Institutions in KD | 4 | 4,406,487 | 20,161,748 | |
| Local Bonds in Kuwaiti Dinars and Public Debt Instruments | 5 | 39,124,769 | 87,052,005 | |
| Discounted and Re-discounted Commercial Papers | | | 50,591,319 | |
| Other Assets | 6 | 6,053,913 | 4,728,461 | |
| | | 1,174,642,480 | 1,323,237,416 | |
| Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts | 12 | 6,128,531,771 | 7,036,052,399 | |

| Capital, Reserves and Liabilities | | 30 June | 30 June |
|---|------|---------------|---------------|
| | Note | 1996 | 1995 |
| Capital - Fully Paid Up | | 5,000,000 | 5,000,000 |
| General Reserve Fund | 7 | 179,000,000 | 179,000,000 |
| Special Account | 8 | 127,802,067 | 158,459,384 |
| Profit For the Year | | 48,878,644 | 53,057,279 |
| Currency Issued | 9 | 410,449,562 | 411,284,157 |
| Government Accounts | | 301,672,626 | 397,931,707 |
| Local Banks' Accounts and Deposits with the CBK | 10 | 85,041,031 | 99,841,294 |
| International Institutions | | 3,882,151 | 9,122,617 |
| Deposits on Documentary Credits | 12 | 3,801,724 | 4,500,780 |
| Other Liabilities | 11 | 9,114,675 | 5,040,198 |
| | | 1,174,642,480 | 1,323,237,416 |
| Accounts Managed by the CBK on Behalf of the Government of the State of | | | |
| Kuwait and Contra Accounts | 12 | 6,128,531,771 | 7,036,052,399 |

The attached notes from 1 to 15 constitute a part of these financial statements.

CENTRAL BANK OF KUWAIT

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1996

| | | 1995/96 | 1994/95 |
|--|------|------------------|------------------|
| | Note | (Ending 30 June) | (Ending 30 June) |
| Interest & Income From Investments | | 56,054,914 | 62,154,090 |
| Interest and Commission Expenses | | (764,069) | (44,536) |
| Provisions Against Investments No Longer Required (Charged) | | 2,785,524 | (760,790) |
| | | 58,076,369 | 61,348,764 |
| Other Income | | 506,249 | 360,922 |
| Operating Income | | 58,582,618 | 61,709,686 |
| Operating Expenses | 13 | 9,703,974 | 8,652,407 |
| Profit For the Year to be Transferred to the Ministry of Finance in Accordance with Article 17, paragraph 3(b), of Law No. 32 of 1968 amended by the Law No. 130 of 1977 | | 48,878,644 | 53,057,279 |
| 130 01 17// | | 40,0/0,044 | 33,03/,4/9 |

The attached notes from 1 to 15 constitute a part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 - Activities:

The Central Bank of Kuwait (CBK), is incorporated in Kuwait by Law No. 32 of 1968 as amended by Law No. 130 of 1977. The CBK is a public institution with an independent juristic personality, and is entrusted with the issue of the local currency on behalf of the State of Kuwait, the security of the stability of the Kuwaiti currency and its free convertibility into other currencies, directing the monetary and credit policies, the supervision of the banking system and serving as banker and financial advisor to the Government.

2 - Significant Accounting Policies:

These financial statements have been prepared in accordance with Law No. 32 of 1968 as amended by Law No. 130 of 1977. The applied significant accounting policies are as follows:

(a) Gold:

In accordance with the Amiri Decree of 9 July 1978, gold is valued at KD 12.500 per fine ounce.

(b) Investments:

- **Short-term Investments:** Kuwaiti treasury bills owned by the CBK are stated in the balance sheet at cost, adjusted for unamortised discount.
- Long-term Investments: Long-term investments are stated at cost, adjusted for any premium or discount as appropriate, with provision for any permanent decline in value on an individual basis.

(c) Revenue Recognition:

Interest receivable and payable are recognized on a time proportion basis, taking into account the principal outstanding and the rate applicable.

(d) Capital Expenditure:

Capital expenditure is charged to expenses in the year of authorization.

(e) Foreign Currencies:

In accordance with Article 48 of Law No. 32 of 1968 (as amended by Law No. 130 of 1977) and the Amiri Decree of 9 July 1978, all assets and liabilities in foreign currencies at the balance sheet date are translated into Kuwait Dinars at the year end rates of exchange and resulting gains or losses are taken to a special account.

| 3 - Investments & Deposits in Foreign Currenci | ies (KD): | |
|--|----------------------------|--------------------------|
| | 30 June 1996 | 30 June 1995 |
| Deposits with Banks and Foreign Institutions Bonds of Foreign Governments | 1,021,411,701 4,496,400 | 856,350,909 4,489,050 |
| | 1,025,908,101 | 860,839,959 |
| Provision Against Deposit in Foreign Currency | - | 6,110,900 |
| | 1,025,908,101 | 854,729,059 |

| -Deposits & Loans in KD with Loca | al Banks and Financial II | nstitutions (KD): |
|-----------------------------------|---------------------------|-------------------|
| | 30 June 1996 | 30 June 1995 |
| Deposits | - | 15,500,000 |
| Loans | 7,014,328 | 7,269,589 |
| | 7,014,328 | 22,769,589 |
| Provision for doubtful debt | 2,607,841 | 2,607,841 |
| | 4,406,487 | 20,161,748 |

5 - Local Bonds in KD & Public Debt Instruments (KD): 30 June 1996 30 June 1995 Local Bonds in KD Kuwaiti Treasury Bills 2,696,168 2,692,926 84,359,079

39,124,769

87,052,005

| Other Assets (KD): | 30 June 1996 | 30 June 1995 |
|---|-----------------|-----------------|
| Interest Receivable on Deposits and other | 1,767,997 | 1,397,226 |
| Assets CBK's Share in the Capital of the Industrial | | |
| Bank of Kuwait | 2,511,210 | 2,511,210 |
| Other Debit Balances | 1,679,901 | 723,215 |
| Prepaid Expenses | 94,805 | 96,810 |
| | 6,053,913 | 4,728,461 |

7 - General Reserve Fund:

In accordance with Article 17, paragraphs 3(a) and 3(b), of Law No. 32 of 1968 (as amended by Law No. 130 of 1977) the net profit of the CBK shall be paid into the General Reserve Fund until the balance of the fund amounts to twenty five million Kuwaiti Dinars, unless the Board of Directors recommends and the Minister of Finance approves further increases in the Fund. In 1985, the Board recommendation to increase the fund to KD 179 million was approved by the Minister of Finance and Economy.

| 8 - Special Account (KD): | | |
|--|-----------------|-----------------|
| | 30 June 1996 | 30 June 1995 |
| Balance at Beginning of the Year Net Profit (loss)on Foreign Exchange Resulting | 158,459,384 | 97,687,650 |
| From Revaluation of Assets and Liabilities in Foreign Currencies | (30,657,317) | 60,771,734 |

| Balance at End of the Year | |
|----------------------------|--|
|----------------------------|--|

127,802,067

158,459,384

The special account represents the net profit accumulated as a result of revaluation of all assets and liabilities in foreign currencies and profit resulting from the withdrawal of currency notes from circulation, based on Article 48 of Law No. 32 of 1968 (as amended by Law No. 130 of 1977) and the Amiri Decree of 9 July 1978.

| 9 - Currency Issued (KD): | | |
|--|------------------------------|---------------------------------------|
| | 30 June 1996 | 30 June 1995 |
| Net Currency Produced Less : Currency in the CBK's Vaults | 1,312,854,508 902,404,946 | 1,355,750, 8 54 944,466,697 |
| | 410,449,562 | 411,284,157 |

Net currency produced represents the total of currency printed, reduced by currency destroyed.

| | 30 June 1996 | 30 June 1995 |
|------------------------------|--------------------------|-----------------|
| Current Accounts Deposits | 60,041,032 25,000,000 | 99,841,294 |
| | 85,041,031 | 99,841,294 |

| Other Liabilities (KD): | 30 June | 30 June |
|---|-----------|-----------|
| | 1996 | 1995 |
| Accrued Expenses | 674,842 | 970,333 |
| Other Credit Balances | 8,439,833 | 4,064,758 |
| Provision Against Cheques in a Foreign Currency | - | 5,107 |
| | 9,114,675 | 5,040,198 |

Other credit balances include provisions for employees' leave pay and termination benefits and credit accounts of non-banking institutions.

12- Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts:

| | 30 June 1996 | 30 June 1995 |
|--|------------------------------|------------------------------|
| Accounts Managed by the CBK on Behalf of the Government | 6,021,160,582 | 6,876,572,218 |
| Contra Accounts: Letters of Credit Letters of Guarantee | 99,830,176 | 149,765,329 110,728 |
| Memorial Notes and Coins Forward Transactions on Behalf of the Kuwait Investment Authority | 1,507,099 6,033,914 | 3,436,959 6,167,165 |
| | 107,371,189 6,128,531,771 | 159,480,181 7,036,052,399 |

On 30 June 1996, deposits of KD 3,801,724 (against KD 4,500,780 on 30 June 1995) were held against the letters of credit referred to above.

| | 1995/96 | 1995/94 |
|--|---------------------|---------------------|
| | (Ending 30 June) | (Ending 30 June) |
| Employee Costs | 7,015,504 | 6,521,612 |
| Production and Shipment of Currency | 671,483 | 450,000 |
| Administrative and Computer Costs | 851,739 | 710,818 |
| Purchases of Furniture, Equipment and Vehicles | 318,923 | 155,443 |
| Sundry Expenses | 846,325 | 814,534 |
| | 9,703,974 | 8,652,407 |

14- Compensation Claim:

The CBK has submitted a claim amounting to KD 73,132,296 to the Public Authority for the Assessment of Compensation for losses suffered as a result of the Iraqi invasion and occupation of the State of Kuwait.

15- Promissory Notes Held:

On 30 June 1996, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 413,220,968 (against KD 453,831,247 on 30 June 1995).

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Corrigendum

Paragraph 4 in page 15 is to be replaced by the following:

"The number of clients who selected the immediate cash repayment reached 8852 clients (83% of the clients whose debts were purchased and managed). The value of their debts as on 1/8/1990 amounted to KD 4856 million (77% of the total value of the purchased and managed debts), while KD 737 million was collected from the principal amount of these debts."

* The number of clients who selected the cash repayment reached 8852 (83% of the clients whose debts were purchased and managed). The value of their debts as on 1/8/1990 amounted to KD 4856 million (77% of the total value of the purchased and managed debts), while KD 737 million was collected from the principal amount of these debts.