

CENTRAL BANK OF KUWAIT

**THE TWENTY NINTH
ANNUAL REPORT**

FOR THE FISCAL YEAR 2000/01

The Annual Report of the Central Bank of Kuwait for the Fiscal Year 2000/01

INTRODUCTION

In continuation of its endeavours to strengthen the foundations of monetary stability in the country and enhance the soundness of its banking and financial sector, the Central Bank of Kuwait (CBK) pursued in the fiscal year 2000/01 its efforts in drawing and implementing the monetary policy as well as enhancing the programs for supervising and overseeing the

the consistency of its monetary and supervisory policies with the general directions of the economic policy, and in the firm establishment of sound professional practices in the banking and financial sector units so as to contribute to strengthening their positions and boosting their competitive capabilities. Within this context, the CBK is keen on following up the worldwide economic, monetary and banking developments and their reflections on the domestic monetary and banking conditions, along with taking necessary action in this regard.

Additionally, within its efforts in making available information and data on the economic, monetary and banking developments in the State of Kuwait, the CBK continued during the fiscal year 2000/01 to prepare, publish and distribute its various periodicals (monthly, quarterly, annually) in both Arabic and English, while constantly updating the content of its internet homepage. The CBK was also keen on participating in national events, as it issued during the fiscal year 2000/01 commemorative coins (in gold and silver) on the occasion of the 40th anniversary of independence of the State of Kuwait, along with issuing a commemorative plastic note for the 10th anniversary of the liberation of Kuwait. Furthermore, the CBK pursued in the fiscal year 2000/01 its efforts in laying the groundwork for the development of an efficient and reliable system for the settlement of payments between the domestic banking and financial system units, thereby increasing the efficiency of settlement operations and keeping abreast with latest worldwide advances in this field.

This report presents an outline of the most significant domestic monetary and banking

developments during the fiscal year 2000/01, 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 CBK balance sheet and the profit and loss account of its activities for the above mentioned fiscal year.

Worth noting is that the fiscal year 2000/01 covered by this report extended to nine months only by virtue of Law No. 18 for year 2000. According to that law, the State fiscal year is to start on the first of April and conclude at end of March of the following year, effective from fiscal year 2001/02. This resulted in the fiscal year 2000/01 extending from 1/7/2000 to 31/3/2001.

First : The Main Monetary and Banking Developments:

1- Monetary Developments:

The CBK continued during the fiscal year 2000/01 to draw and implement its monetary policy aimed at enhancing the atmosphere of monetary stability in all facets of the national economy. The following are the most significant monetary developments during the fiscal year 2000/01.

A- The Domestic Interest Rates:

ensure their consistency with the domestic economic and monetary developments on the one hand and their alignment with the developments in interest rates on major currencies on the other, the CBK carried out in the fiscal year 2000/01 three consecutive cuts to the discount rate on 7 January, 4 February and 21 March 2001. Each cut was by a half percentage point, thus totaling 1.5 percentage point and bringing the discount rate at end of the above mentioned fiscal year to 5.75%, from 7.25% at end of the previous fiscal year.

Regarding interest rates on customers KD and US dollar deposits at local banks, available data indicate a decline in the averages of interest rates on KD deposits for all terms during the fiscal year 2000/01. The average interest rate on the three-month KD

deposits declined from 5.45% during the third quarter of year 2000 to 4.59% during the first quarter of year 2001. On the other hand, a steeper decline was recorded in the averages of interest rates on US dollar deposits with local banks in the same period during the fiscal year 2000/01, as the average interest rate on these deposits for the three-month term declined from 6.2% during the third quarter of year 2000 to 4.88% during the first quarter of 2001. Consequently, the fiscal year 2000/01 witnessed a shrinkage in the interest rate margins existing in favour of the dollar deposits between the averages of local banks interest rates on the KD and US dollar deposits for the relatively short terms (up to three months) and shifted in favour of the KD deposits for the longer terms (6 and 12 months). For example, the margin between the averages of interest rates on KD and US dollar deposits at local banks for the 6-months and 12-months terms during the first quarter of year 2001 reached 0.07 and 0.26 percentage point in favour of KD deposits respectively, though having been in favour of the US dollar deposits by 0.57 percentage point for both mentioned terms during the third quarter of year 2000.

Furthermore, the averages of interest rates on the KD interbank deposits of local banks witnessed a similar downturn during the fiscal year 2000/01. For example, the average of interest rates on these deposits for the one-month term decreased by 1.31 percentage point to 5.64% during the first quarter of year 2001 against 6.95% during the third quarter of year 2000. These averages also declined for the six-month deposits from 7.12% to 5.72% during the same period of comparison.

In the same direction, the average interest rates on Kuwaiti Treasury Bills and Bonds, which the CBK manages on behalf of the Ministry of Finance and uses as monetary policy instruments to regulate the levels of domestic liquidity, witnessed a decline in the fiscal year 2000/01. For example, the averages of interest rates on the three-month and six-month Treasury Bills declined from 6.98% and 7.07% respectively during the third quarter of year 2000 to 5% and 5.75% respectively during the first quarter of year 2001. Also, the averages of interest rates on the one-year Treasury Bonds issued during the same period of comparison declined from 7.375% to 6.125%.

B- Money Supply:

Money Supply in its broad definition (M2) reached KD 8864.6 million at end of March

2001 (end of the fiscal year 2000/01), thereby recording a marked growth of KD 928.1 million or 11.7% compared to end of June 2000 (end of the fiscal year 1999/2000). This increase was essentially due to a rise of KD 789.1 million or 12.1% in quasi money (from KD 6496.4 million at end of June 2000 to KD 7285.5 million at end of March 2001), along with an increase of KD 139 million or 9.7% in money (the narrow definition of money supply M1) compared to end of the previous fiscal year.

Regarding factors which affected the growth of money supply within the aggregate monetary position of the CBK and local banks during the fiscal year 2000/01, as represented by the changes in net domestic and foreign assets of the mentioned institutions, the net foreign assets had an expansionary effect on money supply to the tune of KD 1230.9 million as a result of the rise in net foreign assets of both the CBK by KD 776.9 million and local banks by KD 453.9 million. Also, the other net domestic assets (other than the net claims on the government and private sector) of the above mentioned institutions, had an expansionary effect of KD 172.4 million, while the decline in the net claims on the government and private sector contributed KD 475.2 million to the shrinkage in money supply, in light of the decrease in both the net claims of the CBK and local banks on the government by KD 459.2 million and local banks claims on the private sector by KD 16 million.

C- The KD Exchange Rate:

The KD exchange rate maintained its relative stability against the major currencies n firmly establishing the bases of monetary stability in the country. This policy, which the CBK started applying since March 1975, is based on tying the KD exchange rate to a weighed basket of currencies of countries that have significant trade and financial relations with the State of Kuwait. This relative stability is concluded from noting that the exchange rate of the Kuwaiti dinar against the US dollar recorded a limited decline which did not exceed 0.5%, as the US dollar exchange rate against the Kuwaiti dinar reached 307.87 fils at end of March 2001, from 306.26 fils at end of June 2000. Furthermore, during the fiscal year 2000/01, the movements of the KD exchange rate against the US dollar remained within very narrow margins, as the difference between the highest and lowest exchange rates of the US dollar against the Kuwaiti dinar did not exceed 4.16 fils or 1.4% during the fiscal year 2000/01. Meanwhile, the exchange rates

of other major currencies recorded marked fluctuations, as the difference between the highest and lowest exchange rates of the US dollar reached 17.2% against the Japanese yen, 14.2% against the Euro, 13% against the Swiss franc, and 8.6% against the Sterling pound.

D- Bank Credit:

The total balances of utilized cash credit facilities extended by local banks to the Kuwaiti economic sectors recorded a slight decline of KD 17.9 million (0.3%) during the fiscal year 2000/01 to KD 5224.4 million at end of March 2001, against KD 5242.3 million at end of June 2000. The sectoral distribution of the balances of utilized cash credit facilities at end of March 2001, indicates a decline in the balances of credit facilities extended to the **Personal Facilities** sector by KD 76.7 million or 4.3% to KD 1688.4 million (representing 32.3% of the total), the Real Estate sector by KD 17.0 million or 1.9% to KD 868.2 million (16.6% of the total), the Industry sector by KD 18.6 million or 4.6% to KD 383.6 million (7.3% of the total). Meanwhile, the balances of credit facilities extended to the **Other** sector (which includes transportation, governmental and professional services, in addition to other services) increased by KD 71.6 million or 16.8% to KD 496.9 million (9.5% of the total).

As for the new KD credit facility agreements with residents (renewal of existing credit limits or credit facilities extended to new clients) which reflect the demand for bank credit, their value amounted to KD 2181.2 million during the fiscal year 2000/01, i.e. a decline of KD 237.2 million or 9.8% compared to the value of the limits of credit facility agreements concluded during the similar period of the previous fiscal year. In this regard, the value of credit facilities agreements with the Trade sector during the fiscal year 2000/01 reached KD 712 million, thereby accounting for 32.6% of the total value of credit facilities agreements concluded during that fiscal year. Meanwhile, the value of credit facility agreements concluded with the Real Estate sector reached KD 339 million or 15.5% of the total value of credit facility agreements concluded during the mentioned fiscal year.

E- Issuing of Public Debt Instruments:

The CBK continued during the fiscal year 2000/01 to issue public debt instruments- Treasury Bills and Bonds- on behalf of the Ministry of Finance. Thereby, during the mentioned fiscal year, the CBK made 18 issues of Treasury Bills with a total nominal value of KD 1415 million, of which 12 issues of three-month maturity and a total nominal value of KD 890 million, and 6 issues of six-month maturity and a total nominal value of KD 525 million. During that fiscal year, 20 previous issues of these bills with a total nominal value of KD 1397 million reached maturity. Accordingly, the outstanding balance of Treasury Bills at end of the fiscal year 2000/2001 rose slightly by KD 18 million or 2.7% to KD 680 million against KD 662 million at end of the previous fiscal year.

Furthermore, during the fiscal year 2000/01, the CBK made 11 issues of Treasury Bonds with a total nominal value of KD 1065 million, of which 10 issues for a one-year term and a total nominal value of KD 965 million, and one issue for a two-year term and a nominal value of KD 100 million. During the same fiscal year, 12 previous Treasury Bond issues with a total nominal value of KD 1090 million matured. Accordingly, the outstanding balance of Treasury Bonds declined by KD 25 million or 1.4% to KD 1793 million at end of the fiscal year 2000/01 against KD 1818 million at end of the previous fiscal year.

As a result of the above developments, the outstanding balance of public debt instruments (Treasury Bills and Bonds) declined slightly by KD 7 million or 0.3% to KD 2473 million at end of the fiscal year 2000/01 from KD 2480 million at end of the previous fiscal year.

2- Banking Developments:

Available data indicate that the aggregate balance sheet of local banks rose by KD 600.9 million or 4.4% to KD 14182.8 million at end of March 2001 against KD 13582 million at end of June 2000. This rise was the outcome of several developments on both the assets and liabilities sides in this balance sheet. The following are the most

significant of these developments:

On the Assets Side:

- The rise in balance of total foreign assets of local banks by KD 279.5 million (14.4%) to KD 2218.4 million at end of March 2001, from KD 1938.9 million at end of June 2000. This rise is essentially ascribable to the marked increase in the balances of local bank deposits with foreign banks by KD 190 million (29.4%) to KD 835.6 million at end of March 2001, against KD 645.6 million at end of June 2000, in addition to the increase in the balances of credit facilities extended to non-residents by KD 100.4 million (10.5%) to KD 1052.6 million at end of March 2001.

- The decline in the balances of local banks claims on the government by KD 360.9 million (9.2%) to KD 3573.7 million at end of March 2001, thereby accounting for 25.2% of total assets, compared with KD 3934.6 million or 29% of total assets at end of June 2000. This decline resulted from the decrease in balances of the Debt Purchase Bonds by KD 232.6 million or 14% (from KD 1665.5 million at end of June 2000 to KD 1432.9 million at end of March 2001) and Purchase Bonds of the Real Estate Portfolio of the Kuwait Finance House by KD 48.5 million or 84% (from KD 57.7 million at end of June 2000 to KD 9.3 million at end of March 2001) on the one hand, along with the decline in the balances of public debt instruments (Treasury Bills and Bonds) by KD 79.8 million or 3.6% (from KD 2211.4 million at end of June 2000 to KD 2131.6 million at end of March 2001) on the other hand.

- The slight decline in local bank claims on the private sector by KD 16 million (0.3%) to KD 5802.9 million or 40.9% of total assets at end of March 2001, compared with KD 5818.9 million or 42.8% of total assets at end of June 2000. This decline was the outcome of the above mentioned decrease in the balance of the utilized portion of cash credit facilities extended to the domestic economic sectors by KD 17.9 million or 0.3% (from KD 5242.3 million at end of June 2000 to KD 5224.4 million at end of March 2001) on the one hand, and the slight increase in the balances of other domestic investments by KD 1.9 million

or 0.3% (from KD 576.6 million at end of June 2000 to KD 578.5 million at end of March 2001) on the other hand.

On the Liabilities Side:

- The increase in private sector deposits with local banks by KD 920.8 million (12.2%) to KD 8476.2 million at end of March 2001, thereby accounting for 59.8% of total claims, against KD 7555.4 million or 55.6% of total claims at end of June 2000. The major portion of this rise resulted from the increase in KD deposits with local banks by KD 559.8 million (8.4%) to KD 7252.3 million or 85.6% of the total value of deposits at end of March 2001, against KD 6692.4 million or 88.6% of the total value of deposits at end of June 2000. Furthermore, the balances of private sector foreign currency deposits with local banks rose during the same period by KD 361 million or 41.8% to KD 1223.9 million at end of March 2001 against KD 863 million at end of June 2000.
- The marked increase in the balances of local banks deposits with the CBK by KD 672.9 million to KD 1033.1 million at end of March 2001, against KD 360.3 million at end of June 2000. This rise is attributable essentially to the increase in the balances of local banks term-deposits with the CBK by KD 663 million to KD 993.5 million at end of March 2001 compared with KD 330.5 million at end of June 2000.
- The decline in balances of foreign claims on local banks by KD 174.4 million or 13.2% (from KD 1319.5 million at end of June 2000 to KD 1145.1 million at end of March 2001), as an outcome of the decrease in the balances of non-resident (banks and other entities) deposits by KD 260.7 million or 20.4% to KD 1018.2 million at end of March 2001 on the one hand, and the rise in other claims by KD 86.2 million or 212.2% (from KD 40.6 million at end of June 2000 to KD 126.9 million at end of March 2001) on the other hand.

- by KD 87.9 million or 5.8% (from KD 1513.4 million at end of June 2000 to KD 1601.3 million at end of March 2001). This increase is ascribable to the bolstering of 2000, along with the effect of implementation of the International Accounting Standard No. (39) as of 1/1/2001.

Second: Significant Supervisory Measures and Instructions Issued by the CBK

ent for strengthening the financial positions of the banking and financial system units, by continuing to upgrade and enhance the efficiency of supervisory and oversight programmes, the CBK issued during the fiscal year 2000/01 several decisions and instructions, most significant among which are the following:

- In line with the incessant developments witnessed by the financial markets, and the resulting expansion in dealing with the numerous financial instruments, both conventional and innovated, at a time where the investment activity is considered an important element of the activity of banking and financial institutions, and where its results have a significant effect on the financial position of these institutions, their performance evaluation and the size of their cash flows, the CBK carried out a review of its previously issued instructions with regard to regulating the investment policy of local banks. The review revealed the necessity to introduce certain amendments to these instructions, so as to ensure regulating the investment activity. Consequently, the CBK issued on 21/11/2000 a circular to local bank amending the instructions regulating the investment policy of these banks. The circular encompassed the amendment of certain essential conditions which should be embodied in the investment policy of these banks, along with introducing certain controls regarding the accounting policies and treatments applied to financial investments. The circular also stipulated the necessity of providing the CBK with quarterly data on the financial investments of local banks, according to the forms prepared for that purpose.

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regard to measuring their capital adequacy ratios, so as to strengthening their financial positions and ensure their soundness on firmly established bases, the CBK issued on 22/3/2001 a circular to local banks instructing them about the capital adequacy requirements to confront market risk, and the method of capital calculation.

Third: Major Operations Performed by the CBK

1. The monthly average value of currency and coins issued during the fiscal year 2000/01 reached KD 439.8 million, compared with a monthly average of KD 422.6 million during the previous fiscal year. The value of issued currency reached its highest level during the fiscal year 2000/01 in December 2000 (KD 505.2 million), and its lowest level in September 2000 (KD 373.3 million).
2. The total value of banking sector operations carried out through the CBK Clearing Room during the fiscal year 2000/01 declined below its previous fiscal year level, as it reached KD 2735.3 million, with an average of KD 2493.1 per transaction, compared with KD 3709.1 million and an average of KD 2387.6 per transaction during the previous fiscal year. Meanwhile, settlement operations carried out between banks during the fiscal year 2000/01 amounted to KD 32.8 billion with a monthly average of KD 3645 million, compared with KD 43.3 billion and a monthly average of KD 3605 million during the previous fiscal year.
3. During the fiscal year 2000/01, the CBK processed 5734 banking drafts amounting to KD 260.2 million, compared with 8879 banking drafts valued at KD 429.6 million during the previous fiscal year.
4. As mentioned above, the CBK continued during the fiscal year 2000/01 to issue public debt instruments on behalf of the Ministry of Finance. Thereby, during that fiscal year, the CBK made 18 issues of Treasury Bills of three-month and six-month maturities, with a total nominal value of KD 1415 million. During that fiscal year,

20 previous issues of these bills with a total nominal value of KD 1397 million reached maturity. Additionally, the CBK made 11 issues of Treasury Bonds of one-year and two-year maturities with a total nominal value of KD 1065 million. During that fiscal year too, 12 previous Treasury Bond issues with a total nominal value of KD 1090 million matured. Accordingly, the outstanding balance of public debt instruments (Treasury Bills and Bonds) at end of the fiscal year 2000/01 reached KD 2473 million (KD 680 million for Treasury Bills and KD 1793 million for Treasury Bonds) compared with KD 2480 million (KD 662 million for Treasury Bills and KD 1818 million for Treasury Bonds) at end of the previous fiscal year.

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reached KD 5858 million, of which KD 2619 million through the auctioning system for accepting deposits from local banks to absorb their surplus liquidity.

6. During the fiscal year 2000/01, the CBK processed foreign banking transactions, on behalf of ministries and government bodies, namely documentary credits as well as bills and drafts for collection, as shown in the following table:

Particulars	No.	Value (in KD)
First- Documentary Credits:		
1- Opened:		
-Local	2	9,852,583.471
-Foreign	62	9,810,248.525
2- Paid:		
-Local	6	6,504,719.282
-Foreign	120	26,589,130.515
3- Amended:		
-Local	1	-
-Foreign	71	-
Second- Collection Transactions:		
Bills for Collection		
- Incoming	54	297,172.104
- Paid-up	33	123,359.702
Third- Drafts for Collection:		
- Collected	145	604,610.313

Fourth: The Labour Force at the CBK

The CBK continued during the fiscal year 2000/01 to intensify its efforts aimed at improving its banking cadres and upgrading their efficiency, along with raising the percentage of Kuwaiti staff in the total labour force. The CBK took in this regard several measures and decisions during the fiscal year 2000/01, most important among which are the following:

1. During the fiscal year 2000/01, twenty Kuwaiti graduates, of which 14 holding university degrees and 6 holding the diploma of applied sciences, were accepted as trainees for various positions at the CBK. Also, 39 staff members were appointed at the CBK, of which 37 Kuwaitis (94.8%), during the mentioned fiscal year. Meanwhile, 18 trainees who successfully completed their training program were confirmed in their jobs at the CBK.
2. The total labour force at the CBK reached 735 employees (of which 545 Kuwaitis) at end of the fiscal year 2000/01, thus reflecting a rise in the percentage of Kuwaitis in the total labour force at the CBK to 74.1% compared with 732 employees, of which 531 Kuwaitis or 72.5% of the total labour force at end of the fiscal year 1999/2000.
3. During the fiscal year 2000/01, the CBK organized 99 specialised training courses in the State of Kuwait in cooperation with domestic training institutions, and sent 428 of its employees to these courses. Furthermore, the CBK sent 42 of its employees to 37 training courses abroad.
4. During the fiscal year 2000/01, the CBK sent 50 of its staff members abroad to attend 26 conferences and meetings held on various topics at the international, Arab and Gulf countries levels.
5. During the fiscal year 2000/01, the CBK sent three of its employees abroad on masters degree scholarships. Furthermore, 8 employees were enrolled for the high diploma in banking studies offered by the Institute of Banking Studies in the State of Kuwait. Two staff members obtained that diploma in the fiscal year 2000/01.

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Fifth :
The Central Bank of Kuwait Balance Sheet
and Profit & Loss Account for the Fiscal Year
Ended 31 March 2001

AUDITORS REPORT

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 31 March 2001 and of the results of its operations for the period then ended, in compliance with Law No. 32 of 1968 and amendments thereof.

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.

Waleed Abdulla Al-Osaimi

Register of Accountants & Auditors
License No. 68 A - Kuwait
Al-Aiban, Al-Osaimi & Partners
of ERNST & YOUNG

13 May 2001
State of Kuwait

CENTRAL BANK OF KUWAIT

Balance Sheet As On

Assets	Note	31 March 2001	30 June 2000
Gold		31,732,140	31,732,140
Cash, and Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions		217,908,586	202,548,552
Deposits and Investments in Foreign Currency	3	2,126,486,380	1,364,957,850
Deposits and Loans with Local Banks and Financial Institutions in KD	4	5,802,701	5,559,479
Other Assets	5	16,507,391	8,155,023
		2,398,437,198	1,612,953,044
Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts	11	4,161,338,927	4,461,723,154

31 MARCH 2001 (KD)

Capital and Liabilities	Note	31 March 2001	30 June 2000
Capital - Fully Paid Up		5,000,000	5,000,000
General Reserve Fund	6	179,000,000	179,000,000
Special Account	7	51,158,223	68,466,893
Profit For the Year		47,284,584	48,505,094
Currency Issued	8	450,020,681	442,335,385
Government Accounts		595,113,319	455,178,732
with the CBK	9	1,037,725,024	367,409,764
International Institutions		2,533,090	2,565,224
Deposits on Documentary Credits	11	10,242,373	10,777,795
Other Liabilities	10	20,359,904	33,714,157
		2,398,437,198	1,612,953,044
Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts	11	4,161,338,927	4,461,723,154

The attached notes from 1 to 14 constitute a part of these financial statements.

CENTRAL BANK OF KUWAIT

**PROFIT & LOSS ACCOUNT FOR
THE YEAR ENDED 31 MARCH 2001
(KD)**

	Note	2000/01 (9 Months Ending 31 March 2001)	1999/2000 (Ending 30 June)
Interest & Income From Investments		85,574,297	68,401,357
Interest and Commission Expenses		(28,072,982)	(9,868,055)
Provision no longer required (against bad debt)		584,773	660,075
		58,086,088	59,193,377
Other Income		237,271	286,709
Operating Income		58,323,359	59,480,086
Operating Expenses	12	11,038,775	10,974,992
Net 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 Decree Law No. 130 of 1977		47,284,584	48,505,094

The attached notes from 1 to 14 constitute a part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2001

1- Activities:

The Central Bank of Kuwait (CBK), is incorporated in Kuwait by Law No. 32 of 1968 and amendments thereof. 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 and financial system and serving as banker and financial advisor to the Government.

2- Significant Accounting Policies:

These financial data were prepared in accordance with Law No. 32 of 1968 and amendments thereof. 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) Revenue Recognition:

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

(c) Capital Expenditure:

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

(d) Foreign Currencies:

In accordance with Article 48 of Law No. 32 of 1968 amended by the Decree Law No. 130 of 1977, and the Amiri Decree of 9 July 1978, all assets and liabilities in foreign currencies are revalued at the exchange rates prevalent on the date of the preparation of the balance sheet, and the resulting gains or losses taken to a special account.

3- Deposits and Investments in Foreign Currencies (KD):

	31 March 2001	30 June 2000
Deposits with Foreign Banks and Institutions	2,121,866,980	1,360,364,700
Central Banks facilities to the International Bank for Reconstruction and Development	4,619,400	4,593,150
	2,126,486,380	1,364,957,850

4- Deposits & Loans in KD with Local Banks and Financial Institutions (KD):

	31 March 2001	30 June 2000
Loan	5,802,701	6,144,252
Provision for Doubtful Debt	-	(584,773)
	5,802,701	5,559,479

5- Other Assets (KD):

	31 March 2001	30 June 2000
Interest Receivable on Deposits and other Assets	13,008,969	4,134,984
Kuwait	2,511,210	2,511,210
Other Debit Balances	858,171	1,214,009
Prepaid Expenses	129,041	294,820
	16,507,391	8,155,023

6- General Reserve Fund:

In accordance with Article 17, paragraphs 3(a) and (b), of Law No. 32 of 1968 and amendments thereof the net profits 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.

7- Special Account (KD):

	31 March 2001	30 June 2000
Balance at Beginning of the Year	68,466,893	97,329,327
Net loss on Foreign Exchange, resulting from revaluation of cash assets and liabilities in foreign currencies	(17,308,670)	(28,862,434)
Balance at End of the Year	51,158,223	68,466,893

The special account represents the net profit accumulated as a result of revaluation of 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 and amendments thereof, and the Amiri Decree of 9 July 1978.

8- Currency Issued (KD):

	31 March 2001	30 June 2000
Net Currency Produced	1,021,669,464	908,046,378
Less : Currency in	571,648,783	465,710,993
	450,020,681	442,335,385

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

9- Local Banks Current Accounts and Deposits with the CBK (KD):

	31 March 2001	30 June 2000
Current Accounts	44,225,024	34,909,764
Deposits	993,500,000	332,500,000
	1,037,725,024	367,409,764

10- Other Liabilities (KD):

	31 March 2001	30 June 2000
Accrued Expenses	3,497,287	1,312,584
Other Credit Balances	16,862,617	32,401,573
	20,359,904	33,714,157

benefits and credit accounts of non-banking institutions.

11- Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts (KD):

	31 March 2001	30 June 2000
Accounts Managed by the CBK on Behalf of the Government of Kuwait	4,116,287,048	4,393,788,583
Contra Accounts:		
Documentary Credits	18,739,957	32,629,895
Memorial Notes and Coins	1,722,000	1,319,678
Forward Transactions on Behalf of the Kuwait Investment Authority	6,192,212	6,148,415
Collections According to the Law No. 41 of 1993	18,397,710	27,836,583
	45,051,879	67,934,571
	4,161,338,927	4,461,723,154

On 31 March 2001, deposits of KD 10,242,373 (against KD 10,777,795 on 30 June 2000) were held against the documentary credits referred to above.

12- Operating Expenses (KD):

	2000/01 (9 Months ending on 31 March 2001)	1999/2000 (ending on 30 June 2000)
Employee Costs	7,068,127	8,869,690
Administrative and Computer Costs	1,636,664	821,085
Purchases of Furniture, Equipment and Vehicle	39,440	150,580
Production and Shipment of Currency	1,532,588	101,081
Sundry Expenses	759,048	1,032,556
Construction Costs	2,908	-
	11,038,775	10,974,992

13- Compensation Claims:

The CBK has submitted a compensation 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.

14- Promissory Notes Held:

On 31 March 2001, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 438,826,690 (against KD 454,766,438 on 30 June 2000).

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