



بنك الكويت المركزي
CENTRAL BANK OF KUWAIT



**THE FORTY-FIRST
ANNUAL REPORT**

FOR THE FISCAL YEAR 2012/13

The Annual Report of the Central Bank of Kuwait for the Fiscal Year 2012/13

Introduction:

I am pleased to present the 41st Annual Report of the Central Bank of Kuwait (CBK) for the Fiscal Year (FY) 2012/13. As in the previous years, this issue of the Annual Report includes the Auditors' Report of CBK's financial statements as reflected by the Balance Sheet at 31 March 2013, and the Profit and Loss Account for the mentioned fiscal year. The first part of the Report is a brief review of key banking and financial developments in the Kuwaiti economy during FY 2012/13. The Report also highlights the main procedures and operations carried out by CBK in the monetary and banking supervision affairs including key instructions, circulars, and supervisory rules and regulations issued to the banking and financial units supervised by CBK.

In this context, CBK has continued its focused efforts towards strengthening the foundations of monetary and financial stability in the State of Kuwait through the formulation and implementation of monetary policy, and the supervision and oversight of banking and financial system's units, aiming at boosting economic growth and creating a supportive environment for an efficient performance of the local banking and financial system's units.

In the area of monetary policy several major monetary developments took place during the FY 2012/13. Money Supply in its broad definition (M2)

increased by KD 2478.8 million or 8.7% to KD 31066.4 million at the end of the mentioned fiscal year, against KD 28587.6 million at the end of the previous fiscal year. This increase reflects CBK's persistent efforts to provide an adequate environment for funding various domestic economic sectors. Within this context, the utilized cash portion of credit facilities extended by local banks to economic sectors increased by KD 1343.9 million or 5.2% reaching KD 27338.1 million at the end of FY 2012/13 against KD 25994.2 million at the end of FY 2011/12. Likewise, the resident private sector's deposits with local banks surged to KD 29674 million during FY 2012/13 against KD 27384.1 million at the end of the previous fiscal year, i.e. an increase of KD 2289.9 million or 8.4%. Consequently, the aggregate balance sheet of local banks increased to KD 48755 million at the end of FY 2012/13 against KD 45318.8 million at the end of the previous fiscal year, i.e. an increase of KD 3436.2 million or 7.6%. On the other hand, the total aggregate balance sheet of local investment companies decreased by KD 421.8 million or 3.5% at the end of FY 2012/13 reaching KD 11728.6 million, against KD 12150.4 million at the end of FY 2011/12.

CBK's supervisory and oversight efforts continued during FY 2012/13. These efforts aim at strengthening the financial position of local banks, investment companies and exchange companies in line with the international standards for effective banking supervision aimed at promoting local banks' abilities in risk management, loss absorbing buffers and mitigation of difficult and stressful situations.

CBK has also continued its efforts during FY 2012/13 in building its technical capabilities through upgrading its infrastructure of information

technology (IT), keeping pace with the global advancements in technology to ensure business continuity of CBK's operations under the different circumstances, and providing quality customer service in accordance with the international standards applied.

CBK has made further efforts during FY 2012/13 in building its human capacity by upgrading staffs' academic and professional capabilities through organizing local and international specialized training programs to enhance staffs' performance and competency, so as to maintain current distinguished staff and attract similarly distinguished staff to join CBK for the reinforcement of Bank's capability to carry out the entrusted tasks.

We pray to Allah the Almighty to grant success to our efforts and endeavors and to enable us to achieve the welfare of our beloved country, under the patronage of His Highness the Amir, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince, Sheikh Nawwaf Al-Ahmed Al-Jaber Al-Sabah, and His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah bestow on them good health and continued success.

Dr. Mohammad Y. Al-Hashel
Governor of the Central Bank of Kuwait

Preface:

The Central Bank of Kuwait (CBK) has continued its efforts during FY 2012/13 in pursuit of its objectives stipulated in Law No. 32 of the year 1968 concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business. These objectives include practicing the privilege of issuing the national currency on behalf of the State, maintaining the relative stability in KD exchange rate against foreign currencies and securing its free convertibility, formulating and implementing the monetary policy, controlling credit policies of domestic financial and banking sectors' units, developing supervision and oversight systems and programs of the sectors' units with the intention to support the growth of the national economy on solid foundations and establish financial and monetary stability in the country.

CBK's projects encompassed in the Medium Term Development Plan (2010/11-2013/14) assert its role and policies stated in CBK's establishment Act. During FY 2012/13, CBK has continued to implement and pursue those on-going projects that are in relation to the core objectives sought by CBK. The Report highlights those efforts which include the following:

First- Key Developments in Monetary Policy and Monetary and Banking Indices:

- **Reinforcement of CBK's efforts in drawing and implementing the monetary policy towards promoting monetary stability.**

This part of the Report reviews key developments in the State of Kuwait's major monetary and banking aggregates and indices during FY 2012/13 as reflected in the data on money supply, interest rates, KD exchange rate against major currencies, banking credit, domestic liquidity, issuance of public debt instruments, and aggregate balance sheets of local banks and investment companies. A significant part of these developments reflects the impacts of CBK's efforts related to the formulation and implementation of the monetary policy, and the supervision and oversight programs of local banking and financial units registered with CBK.

Data related to Kuwait's major monetary and banking aggregates and indicators during FY 2012/13 indicate the following positive developments:

1-Monetary Developments:

A-Money Supply:

Money Supply in its Broad Definition (M2) surged to KD 31066.4 million at the end of FY 2012/13 against KD 28587.6 million at the end of FY 2011/12, i.e. an increase by KD 2478.8 million or 8.7%, compared to an increase of KD 1756.4 million or 6.5% during the previous fiscal year. This increase in Money Supply resulted from CBK's continuous efforts to manage the levels of domestic liquidity contributing to the driving forces of growth rates of various domestic economic sectors.

Money Supply Developments
(KD Million)

End of Period	2010/11	2011/12	2012/13	Change in 2012/13 over 2011/12	
				Value	%
Money Supply (M2)	26831.2	28587.6	31066.4	2478.8	8.7
Money (M1) of which:	<u>6269.3</u>	<u>6760.3</u>	<u>7906.8</u>	<u>1146.5</u>	<u>17.1</u>
Sight Deposits	5135.0	5556.7	6514.4	957.7	17.2
Quasi Money	<u>20561.9</u>	<u>21827.4</u>	<u>23159.6</u>	<u>1332.2</u>	<u>6.1</u>
KD Deposits	18312.7	19605.7	20137.7	532.0	2.7
FC Deposits	2249.2	2221.7	3022.0	800.3	36.0

Source: Central Bank of Kuwait.

The rise in Money Supply in its Broad Definition (M2) resulted from the increase in Money (the narrow definition of Money Supply M1) by KD 1146.5 million or 17.1% (from KD 6760.3 million to KD 7906.8 million), and Quasi-money by KD 1332.2 million or 6.1% (from KD 21827.4 million to KD 23159.6 million).

With respect to the factors affecting the changes in Money Supply (M2) within the monetary survey of CBK and local banks (1) at the end of FY 2012/13 compared to the corresponding previous fiscal year, the surge in

(1) Includes as at the end of FY 2012/13, Kuwaiti banks (5 traditional banks, 5 banks operating in accordance to the Islamic Sharia, in addition to one specialized bank), and branches of foreign banks (11 of which one is operating in accordance to the Islamic Sharia).

Money Supply in its Broad Definition (M2) of KD 2478.8 million or 8.7% was the result of the increase in net foreign assets of those institutions by KD 2729.5 million, and the decrease in net domestic assets by KD 309.2 million. Despite the decrease in net domestic assets, the increase in local banks' claims on the private sector reached KD 893.1 million or 3.1%, reflecting local banks' pursuit to ensure bank credit to domestic economic sectors.

On the other side, the mentioned rise in net foreign assets at the end of the FY 2012/13 compared to the end of the previous fiscal year of KD 2729.5 million was mainly due to the increase in net foreign assets of local banks by KD 1490 million or 54.6%, and the increase in net foreign assets of CBK by KD 1238.9 million or 45.4% of the increase in net foreign assets.

B- Domestic Interest Rates:

CBK's discount rate plays a pivotal role resulting from its impact, within specified margins, on the maximum limits of interest rates on KD-lending transactions of local banking and financial system's units. Accordingly, decreasing (or increasing) the discount rate will necessarily entail an equal decrease (or increase) in the maximum limits of interest rates on KD lending transactions of local banking and financial system's units.

In light of CBK's constant pursuance of local economic, monetary and banking developments on the one hand, and the changes in interest rates of major foreign currencies on the other, and in pursuit of CBK's endeavors to strengthen the foundations of domestic economic growth while maintaining

KD's attractiveness and competitiveness as a store of domestic savings and a tool to curb inflationary pressures, the CBK reduced its discount rate by 50 basis points during FY 2012/13 (4th October, 2012) to reach 2% against 2.5% at the end of the previous fiscal year.

With regard to interest rates on both customers' KD and US dollar time deposits with local banks, the average interest rates on customers' KD time deposits witnessed a decline during FY 2012/13 compared with the previous fiscal year. Customers' KD time deposits of one-month and three-month maturity decreased to 0.6728% and 0.9085% respectively against 0.8579% and 1.078% for the two mentioned terms respectively during the previous fiscal year.

In the same context, the average interest rates on US dollar time deposits with local banks of one-month maturity declined slightly during FY 2012/13 reaching 0.1928% against 0.2276% during the previous fiscal year. While, the average interest rates on US dollar time deposits with local banks of three-month maturity were rather stable during FY 2012/13 reaching 0.3325% against 0.3316% during the previous fiscal year. Consequently, the margin between the average interest rates on KD and US dollar deposits of one-month and three-month maturity during FY 2012/13 reached 0.48 percentage point and 0.576 percentage point respectively in favor of KD deposits, against 0.630 and 0.747 percentage point respectively in favor of KD deposits during FY 2011/12.

In the same direction, the average interest rates on local interbank KD deposits of one-month maturity declined during FY 2012/13 reaching

0.531% against 0.689% for the mentioned term during the previous FY 2011/12. The average interest rates on public debt instruments also declined reaching 1% for one-year treasury bonds, compared to 1.25% during the previous fiscal year.

C- The KD Exchange Rate:

CBK has pursued during FY 2012/13 the efforts aiming at maintaining the relative stability of the KD exchange rate against other major currencies, in light of the KD exchange rate policy adopted since 20/5/2007 pegging the Kuwaiti Dinar to a special weighted basket of currencies of the countries that are significantly engaged in trade and financial relations with the State of Kuwait.

The average exchange rate of the US dollar against the KD for FY 2012/13 reached 282.53 fils (per US dollar) against 278.08 fils during the previous fiscal year, i.e. an increase by 3.88 fils or 1.4%. The difference between the highest (284.85 fils) and the lowest (277.25 fils) exchange rate of the US dollar against the KD during FY 2012/13 was 2.7%. Conversely, the exchange rate of the US dollar witnessed significant fluctuations against other major currencies during FY 2012/13. The difference between the highest and the lowest exchange rates of the US dollar was 9.7% against the Pound Sterling, 10.3% against the Swiss Franc, 13% against the Euro, and 24.3% against the Japanese Yen.

The US Dollar Exchange Rate against the KD and Some Major Currencies

FY	2011/12				2012/13			
	Highest Price	Lowest Price	End of Period	Average	Highest Price	Lowest Price	End of Period	Average
Kuwaiti Dinar (fils)	279.50	271.80	277.65	278.08	284.85	277.25	284.85	282.53
Pound Sterling	0.6530	0.5980	0.6266	0.6371	0.6717	0.6124	0.6599	06421
Euro	0.7896	0.6728	0.7502	0.7637	0.8286	0.7331	0.7788	0.7556
Swiss Franc	0.9566	0.7299	0.9043	0.9231	0.9953	0.9023	0.9494	0.9281
Japanese Yen	85.445	75.820	82.940	79.041	96.555	77.665	94.855	92.015

Source: Central Bank of Kuwait.

D- Bank Credit:

The utilized cash portion of credit facilities extended by local banks to various economic sectors during FY 2012/13 increased by KD 1343.9 million or 5.2% to reach KD 27338.1 million at the end of the mentioned fiscal year, compared to KD 25994.2 million at the end of the previous FY 2011/12. This rise resulted basically from the surge in credit balances extended to the Personal Facilities sector (by KD 1139.7 million or 12.4%), the Real Estate sector (by KD 454.2 million or 6.7%), Trade sector (by KD 93.5 million or 3.9%), and the Construction sector (by KD 94 million or 5.5%). On the other side, cash credit facilities extended by local banks to the Non-bank Financial Institutions and Oil and Gas sector declined (by KD 389.8 million or 17.6%) and (by KD 54.9 million or 27.4%) respectively at the end of FY 2012/13.

**Developments of Balances of Utilized Cash Portion of Credit Facilities extended by
Local Banks (to Residents)**

(KD Million)

End of Period	2011/12 (1)	2012/13 (2)	Change in (2) over (1)	
			Value	(%)
Total utilized cash portion of credit facilities, of which:	25994.2	27338.1	1343.9	5.2
• Trade	2400.1	2493.6	93.5	3.9
• Industry	1780.6	1797.6	17.0	1.0
• Construction	1711.2	1805.3	94.0	5.5
• Non-bank Financial Institutions	2215.6	1825.8	(389.8)	(17.6)
• Personal Facilities	9183.7	10323.4	1139.7	12.4
• Real-Estate	6751.6	7205.8	454.2	6.7
• Oil and Gas	200.1	145.2	(54.9)	(27.4)

Source: Central Bank of Kuwait.

E- Domestic Liquidity:

CBK pursued to manage the levels of domestic liquidity during FY 2012/13 in coherence with the local economic, monetary and banking developments. CBK uses numerous monetary instruments, notably the system of accepting time deposits from local banks, issuing CBK bonds, and managing the issuance of public debt instruments including bills and bonds of the Kuwaiti Treasury on behalf of the Ministry of Finance. Furthermore, the CBK ensures the direct supply of liquidity to the domestic banking sector.

Balances of time deposits of local banks with CBK, under the scheme of accepting time deposits from local banks, increased by KD 539.1 million or 25.1% to KD 2688 million at the end of FY 2012/13 compared to KD 2148.9 million at the end of the previous FY 2011/12. CBK introduced

35 issues of CBK bonds with a total nominal value of KD 5251 million. Conversely, 35 previous issues of CBK bonds with a total nominal value of KD 5046 million matured during the same fiscal year. Accordingly, the outstanding total balance of CBK bonds surged to KD 1909 million at the end of FY 2012/13 against its level of KD 1704 million at the end of the previous fiscal year, i.e. a rise of KD 205 million or 12%.

F- Issuance of Public Debt Instruments:

CBK has introduced 2 issues of Treasury Bills during FY 2012/13 with a total nominal value of KD 125 million. Conversely, 4 previous issues of Treasury Bills matured with a total nominal value of KD 250 million. CBK also made 29 issues of Treasury Bonds with a total nominal value of KD 1520 million. Meanwhile, 21 previous issues matured with a total nominal value of KD 1728 million. Accordingly, the total outstanding balance of public debt instruments (Treasury Bills and Bonds) decreased by KD 333 million or 16.9% to KD 1640 million at the end of FY 2012/13 against KD 1973 million at the end of the previous fiscal year. The outstanding balance of public debt instruments were distributed between local banks by KD 1578.5 million (96.25%), and other local institutions by KD 61.5 million (3.75%) at the end of FY 2012/13.

2- Banking Developments:

A-The Aggregate Balance Sheet of Local Banks:

Data on the aggregate balance sheet of local banks indicate an increase amounting to KD 48755 million at the end of FY 2012/13 against KD 45318.8 million at the end of FY 2011/12, i.e. a rise by KD 3436.2 million or 7.6%. This rise was caused by various developments in the components of both sides (Assets and Liabilities) of the balance sheet, the most notable of which are highlighted as follows:

On the Assets Side:

- Local banks' claims on the private sector increased by KD 878.5 million or 3.1% to KD 29517.9 million at the end of FY 2012/13 against KD 28639.4 million at the end of FY 2011/12. This increase resulted from the surge in the balances of utilized cash portion of credit facilities extended by local banks to various domestic sectors by KD 1343.9 million or 5.2%, to KD 27338.1 million at the end of FY 2012/13 against KD 25994.2 million at the end of the previous fiscal year on the one hand, and the decrease in the balances of other local investments by KD 465.4 million or 17.6% to KD 2179.8 million at the end of FY 2012/13 against KD 2645.2 million at the end of the previous fiscal year, on the other.

- Local banks' claims on CBK increased by KD 751 million or 18.2% to KD 4886.7 million at the end of FY 2012/13 against KD 4135.7 million at the end of the previous fiscal year. This rise resulted from the increase in the balances of local banks' holdings of CBK Bonds by KD 205 million or 12% (from KD 1704 million to KD 1909 million), sight deposits with CBK by KD 6.9 million or 2.4% (from KD 282.8

- million to KD 289.7 million), and time deposits with CBK by KD 539.1 million or 25.1% (from KD 2148.9 million to KD 2688 million) between the end of FY 2011/12 and FY 2012/13 respectively.
- Foreign assets of local banks increased by KD 1533.7 million or 18% to KD 10035.3 million at the end of FY 2012/13 against KD 8501.6 million at the end of the previous fiscal year. This rise resulted from the increase in the balances of local banks' deposits with foreign banks by KD 671.4 million or 14.3%, foreign investments by KD 584 million or 21.3%, other foreign assets by KD 39.7 million or 10%, and the utilized cash portion of credit facilities extended to non-residents by KD 238.5 million or 36%.
 - Local banks' claims on the government decreased by KD 327.2 million or 17.2% to KD 1578.5 million at the end of FY 2012/13 against KD 1905.7 million at the end of the previous fiscal year. This decline is attributed to the decrease in the balance of local banks' holdings of Treasury Bonds by KD 209.7 million or 11.7% to KD 1578.5 million at the end of FY 2012/13 against KD 1788.2 million at the end of the previous fiscal year on the one hand, and the loss of local banks' holdings of Treasury Bills by KD 117.5 million at the end of FY 2012/13 compared to the previous fiscal year, on the other.

The Aggregate Balance Sheet of Local Banks

(KD Million)

Items	Balances at the end of the year		
	2010/11	2011/12	2012/13
Assets:			
Cash	160.1	163.4	221.8
Claims on CBK	<u>4006.4</u>	<u>4135.7</u>	<u>4886.7</u>
Balances (demand deposits) with CBK	265.8	282.8	289.7
CBK Bonds	1575.0	1704.0	1909.0
Time Deposits with CBK	<u>2165.6</u>	<u>2148.9</u>	<u>2688.0</u>
Local Interbank Deposits	851.1	1058.8	988.1
Claims on Government	<u>1815.0</u>	<u>1905.7</u>	<u>1578.5</u>
Treasury Bonds	1665.0	1788.2	1578.5
Treasury Bills	150.0	117.5	-
Claims on Private Sector	<u>27652.8</u>	<u>28639.4</u>	<u>29517.9</u>
Credit Facilities to Residents	25235.2	25994.2	27338.1
Other Domestic Investments	2417.6	2645.2	2179.8
External Assets	<u>7290.1</u>	<u>8501.6</u>	<u>10035.3</u>
Deposits with Foreign Banks	3685.8	4694.5	5365.9
Credit Facilities to Non-Residents	767.6	661.4	899.9
Investments Abroad	2448.3	2744.1	3328.1
Other External Assets	388.4	401.6	441.3
Other Assets	823.0	914.2	1526.7
Total Assets = Liabilities	42598.5	45318.8	48755.0
Liabilities:			
Private Sector Deposits	<u>26035.2</u>	<u>27384.8</u>	<u>29674.0</u>
KD Deposits	23776.2	25163.0	26652.0
Foreign Currency Deposits	2258.9	2221.7	3022.0
Government Deposits	3826.8	45045.0	4815.3
Local Interbank Deposits	765.5	925.7	949.0
Shareholders' Equity	5988.1	6317.9	6611.4
Foreign Liabilities	<u>3146.9</u>	<u>3193.0</u>	<u>3247.8</u>
Non-Resident Bank Deposits	1878.3	2081.1	2088.0
Other Non-Resident Deposits	1125.4	960.7	1018.9
Other Foreign Liabilities	143.2	151.3	140.9
Other Liabilities	2836.1	2992.9	3457.6
Contra Accounts:	7468.3	7706.1	8129.7
Bank Guarantees	5726.8	5957.2	6477.4
Obligations within issued data	389.5	353.9	342.9
Documentary Credits	988.3	958.7	1020.2
Bank Acceptances	363.6	436.3	289.2

Source: Central Bank of Kuwait.

On the Liabilities Side:

- Resident private sector's deposits with local banks increased by KD 2289.2 million or 8.4% to KD 29674 million at the end of FY 2012/13 against KD 27384.8 million at the end of the previous fiscal year. The mentioned rise primarily resulted from the increase in the balances of KD deposits by KD 1489 million or 5.9% to KD 26652 million at the end of FY 2012/13 against KD 25163 million at the end of the previous fiscal year. Likewise, foreign currency deposits surged by KD 800.3 million or 36% reaching KD 3022 million at the end of FY 2012/13 against KD 2221.7 million at the end of the previous fiscal year.
- Government deposits with local banks increased by KD 310.8 million or 6.9% to total KD 4815.3 million at the end of FY 2012/13 against KD 4504.5 million at the end of the previous FY 2011/12.
- Shareholders' equity with local banks increased by KD 293.5 million or 4.6% to KD 6611.4 million at the end of FY 2012/13 against KD 6317.9 million at the end of the previous FY 2011/12.
- Foreign liabilities of local banks increased by KD 54.8 million or 1.7% to KD 3247.8 million at the end of FY 2012/13 against KD 3193 million at the end of the previous FY 2011/12. This rise was brought by the increase in the non-resident banks' deposits by KD 6.9 million or 0.3%, and other non-residents' deposits by KD 58.2 million or

6.1% on the one hand, and the decrease in other foreign liabilities by KD 10.4 million or 6.9% at the end of FY 2012/13, on the other.

B- The Aggregate Balance Sheet of Local Investment Companies:

In the context of the coordination with the Capital Markets Authority (CMA) regarding the supervision responsibilities of the units supervised by CBK, a memorandum of understanding was signed on 11/9/2011 defining the frameworks of such coordination. The memorandum covers the aspects of coordination related to the supervision of investment companies, the licensing of new companies, and the units supervised by the CBK. Likewise, a permanent joint work team was formed and authorized by the CBK and the CMA to carry-out coordination tasks as per the memorandum of understanding signed. The team held six meetings during FY 2011/12, knowing that, under the Law No. 7 of 2010 concerning the establishment of the Capital Markets Authority and regulation of securities, the supervisory responsibilities of the investment funds and companies, save the financing activity, were transferred from the CBK to the Capital Markets Authority as of 13/9/2011.

In the same context, the aggregate balance sheet of local investment companies (Traditional and Islamic) reached KD 11728.6 million at the end of FY 2012/13 (for 92 companies registered with the CBK at the end of FY 2012/13) against KD 12150.4 million at the end of FY 2011/12 (for 95 companies registered with the CBK at the end of FY 2011/12), i.e. a decline of KD 421.8 million or 3.5%. This decline was caused by various

developments on both sides (Assets and Liabilities) of the aggregate balance sheet of local investment companies, briefed as follows:

On the Assets Side:

- Total foreign assets increased by KD 35.4 million or 0.6% reaching KD 5662.1 million at the end of FY 2012/13 compared to KD 5626.7 million at the end of the previous fiscal year. This increase resulted from the rise in the balances of non-financial foreign investments by KD 238.7 million or 26.4%, customer financing operations by KD 21.5 million or 24.1% and other assets by KD 31.9 million on the one hand, and the decline in the balances of financial foreign investments by KD 249.4 million or 6.9%, and cash and other balances with banks and financial institutions by KD 7.3 million or 2.3%, on the other.
- Cash and other balances with local banks decreased by KD 193.1 million or 33.8% to KD 378.4 million at the end of FY 2012/13 against KD 571.5 million at the end of the previous fiscal year.
- The value of customer financing declined by KD 158.9 million or 14.3% to KD 952.3 million at the end of FY 2012/13 against KD 1111.2 million at the end of the previous fiscal year.

On the Liabilities Side:

- The volume of financing from residents declined by KD 361.8 million or 11.6% to KD 2760.6 million at the end of FY 2012/13 compared to KD 3122.4 million at the end of FY 2011/12. This decline resulted from the decrease in the values of financing from; local banks by KD 237.6 million or 10.7%, local investment companies by KD 92.1 million or 15.2%, non-bank institutions by KD 22.2 million or 28.5%, and government by KD 9.9 million or 13.2% during the mentioned fiscal year, compared with the previous FY 2011/12.

- The total foreign liabilities increased by KD 109.7 million or 4.4% reaching KD 2621.8 million at the end of FY 2012/13 compared to KD 2512.1 million at the end of the previous fiscal year.

- The value of shareholders' equity decreased by KD 221.7 million or 4.9% to KD 4340.9 million at the end of FY 2012/13 compared to KD 4462.6 million at the end of the previous fiscal year.

The Aggregate Balance Sheet of Local Investment Companies

(KD Million)

Items	Balances at the end of the year	
	2011/12	2012/13
Assets:		
Cash and Balances with Local Banks	571.5	378.4
Customer Financing	<u>1111.2</u>	<u>952.3</u>
Local Investments	<u>3351.1</u>	<u>3044.5</u>
Financial Investments	2801.0	2570.6
Non-financial Investments	550.1	473.9
Foreign Assets	5626.7	5662.1
Other Assets	1489.9	1691.3
Assets=Liabilities	12150.4	11728.6
Liabilities:		
Shareholder's Equity	4562.6	4340.9
Financing from Residents	3122.4	2760.6
Bonds, and Financing Sukuks	266.3	244.6
Foreign Liabilities	2512.1	2621.8
Other Liabilities	1687.0	1760.7
Number of Companies	95	92

Source: Central Bank of Kuwait.

Second- Key Supervisory Measures and Instructions Issued by the CBK:

The CBK has accomplished, through its Supervision Sector, numerous achievements during the FY 2012/13 serving the projects encompassed in CBK's development plan, through:

- Intensifying the supervisory and oversight efforts concerning the banking and financial system's units aiming at upgrading their efficiency and competitiveness and strengthening the basis of financial stability.
- Enhancing the position of the local banking and financial system's units supervised by CBK.

- Upgrading (Retail Banking) services.
- Upgrading (Corporate Banking) services.
- Developing the services supporting the financial sector.

In implementation of the above-stated, CBK has continued its supervisory and oversight efforts during FY 2012/13 aiming to promote the foundations of monetary and financial stability of the national economy, enhance the financial position of the supervised banking and financial system's units in line with the international standards for effective banking supervision, and reinforce banks' tendency towards upgrading their own potentials and abilities in the area of risk and crisis management.

CBK has adopted several mechanisms in implementation of its supervisory projects including on-site/off-site monitoring and other follow-up methods, communications and meetings with officials of banks and financial institutions supervised by CBK.

CBK, in pursuance of the projects of the development plan, has continued its organizational and supervisory role and took a number of measures in this respect, including:

- 1) Reducing the discount rate to enhance banking activity environment, taking into account strengthening credit demand to enable banks employ their surplus in financing national economy sectors towards the improvement of banking sector's performance and the financial position of banks, ultimately reinforcing financial stability.

- 2) CBK has continued to supervise and oversight the banking and financial system's units with respect to the financing activities of local banks, branches of foreign banks, investment companies, as well as exchange companies. The said role is carried out through on-site monitoring, studies and analysis of data and information, and follow-up of the recertification of these units' position if needed.
- 3) Implementation of risk-based inspection plan using advanced methods, and pursuance of the measures and practical steps taken by banks in application of the governance directives issued in June 2012. Likewise, necessary measures have been taken to strengthen banks' risk-management systems through assuring and examining the effectiveness of the financial stress tests, internal capital adequacy assessment process (ICAAP), contributing with banks' boards of directors to the discussion on the results and approval of the framework to tackle them. CBK has also continued to conduct risk assessment measures in accordance with the (CAMEL-BCOM) method, and the Early Warning System (EWS).

Worth mentioning is that, CBK uses three types of stress tests. The first was developed by CBK in light of each banks' database and of the banking sector as a whole. The second is based on a model designed by CBK to conduct semi-annual tests by the banks within the internal capital adequacy assessment in accordance with Basel (II) requiring additional financial capital to face other potential risks. The third type is represented in the tests conducted by banks in accordance with each banks' vision in the context of CBK's tendency enabling

banks to conduct these tests as per their own scenarios and assumptions, taking into account the differences in their financial structure, nature of activities and risk limits.

- 4) Issuance of instructions in June 2012, to Kuwaiti banks regarding corporate governance rules and regulations in line with the international standards and the lessons learned from the global financial crisis and best practices.

It is worth mentioning that, these instructions involve trends that should help improve business environment of the banking sector, and enhance financial stability.

Furthermore, in order to ensure the sound application of those instructions, CBK has organized specialized programs on governance addressed to the members of the boards of directors of the Kuwaiti banks. Preparations are underway for more programs intended for the development of the members' and the executive managements' skills on the sound application of governance standards. These programs include advanced programs on risk management, internal control and audit systems, strategic planning and basic financial analysis.

- 5) In pursuance of best practices in banking supervision, the Steering Committee - formed to set the instructions of Basel (III), and chaired by CBK - has requested the technical assistance of a specialized international office. Notable progress has been made in that regard. The new instructions aim at enhancing the quality and size of capital

and liquidity standards to increase banks' flexibility and ability to face financial and economic shocks and promote financial stability.

- 6) CBK and local banks made persistent efforts to accurately analyze and evaluate the quality of loan portfolios in accordance with the standards applied. This improvement led to significant continued decline in the non-performing loans from 7.06% at the end of December 2011 to 4.95% at the end of December 2012, and promoted the financial position of the banking system's units.
- 7) CBK has issued instructions in 2012 which included controls on linking bank's loans to the structure of its financial resources maturity, allowing the lending ratios to increase up to (100%) against longer-term resources, and not exceed (75%) against short-term resources, to improve the coherence of maturity between assets and liabilities, and reduce financial imbalances in the banking sector.
- 8) CBK has developed an automated system to receive/follow up client's complaints and enhance on-site inspections of the complaints' units at banks and finance companies supervised by CBK. CBK has expanded the responsibilities of the units renamed as " Client Protection Units". Those units will continue to receive and examine complaints submitted to CBK, in addition to the new responsibilities including telephone service to respond to queries received from financial institutions' clients (banks, investment companies and finance companies), and explain the mechanism of CBK's applied instructions on the provided products and services in respect of consumer and

installment loans, credit cards, fees and commissions, as well as terms and conditions related to clients' rights and obligations, to help them choose the financial services and products they need. Clients can easily reach CBK's "Client Protection" on the Unit's hotline during the official working hours.

- 9) In compliance with the client protection approach, CBK provides revised lists of fees and commissions charged by investment and financing companies.
- 10) Realizing the importance of improving banks' retail and corporate sectors and linking them to the development plan's projects, CBK has initiated a semi-annual mechanism to evaluate banks' practical measures taken towards the improvement of the services and products provided.
- 11) In the course of the joint efforts of CBK and other governmental bodies to upgrade the professional aspects of the financial and banking activities, CBK has discussed with the Ministry of Commerce and Industry the potentials of improving the profession of property evaluators being closely associated with the guarantees and real estate assets owned by or guarantor of banks and finance companies. CBK has presented a number of proposals in this regard.
- 12) CBK has upgraded the IT systems during FY 2012/2013, pertaining to the supervisory responsibilities, most importantly those related to banking database and statistics.

- 13) CBK has made many efforts during the fiscal year 2012/2013 to activate the proposed amendments to the law concerning Anti-Money Laundering and Combating the Financing of Terrorism to keep pace with the international supervisory requirements and standards through joining the National Committee of Anti-Money Laundering and Financing Terrorism, and CBK's role in the Kuwaiti Financial Investigation Unit. Following the National Assembly's approval of the mentioned law, CBK has established the regulations of the law and the new instructions for the units supervised by the CBK to be applied as of the date of issuance.
- 14) CBK has participated in the deliberation and study of the new rules of bankruptcy of banking and financial institutions. The discussion session was held in coordination with the Ministry of Commerce and Industry and organized in cooperation with experts from the World Bank.
- 15) CBK has carried out a number of activities related to the dissemination of financial and banking awareness in coordination with the Institute of Banking Studies. CBK has also presented a number of suggestions to promote media campaigns and programs addressed to the clients of the banking and financial sector.
- 16) Out of CBK's determination to enhance internal supervision, banks were instructed to take necessary measures towards strengthening their control systems and upgrade the effectiveness of operational risk management.

Third- Major Banking Operations Performed by CBK:

Data indicate that the average value of currency in circulation reached KD 1270.6 million during FY 2012/13 against KD 1139 million during the previous fiscal year, i.e. an increase of KD 131.6 million or 11.5%. The highest balance of currency in circulation was KD 1406.2 million, in October 2012, while the lowest balance was KD 1140.9 million, in April 2012.

CBK has continued its efforts during FY 2012/13 towards ensuring the quality of currency banknotes in circulation by withdrawing and destroying the banknotes that are no longer fit for circulation in accordance with CBK's minimum quality requirements, and fighting counterfeit and forgery of banknotes, in collaboration with other government bodies.

In the course of its constant pursuance of best practices of international central banking, CBK has replaced during FY 2012/13 the "metal homogenized" coinage technique with the "metal coated completely" to reduce the cost of coinage in light of the global uprising metal prices. The new technique meets the basic requirements of these coins and does not affect their legal tender in circulation.

Interbank settlements carried out through CBK using Kuwait Automated Settlement System for Inter-Participant Payments (KASSIP) amounted KD 158.1 billion during FY 2012/13 against KD 155.6 billion during the previous fiscal year, i.e. a surge by KD 2.5 billion or 1.6%. Total value of transactions made by CBK's clearing room during FY 2012/13 increased to

KD 11.3 billion for 2249.9 thousand transactions (cheques) (i.e. an average value of KD 5020/transaction) against KD 10 billion for 2162.5 thousand transactions (cheques) (i.e. an average value of KD 4656.8 /transaction) during FY 2011/12.

CBK has made 9280 banking transfers in favor of ministries and different government institutions totaling KD 1351.6 million during FY 2012/13 against 8941 banking transfers totaling KD 1021.5 million during the previous fiscal year. Foreign banking transactions carried out by CBK in favor of ministries and other government bodies including documentary credits and payable bills and drafts during FY 2012/13 are detailed as follows:

Particulars	No.	Value (in KD)
First- Documentary Credits:		
1) <u>Opened</u>	<u>52</u>	<u>50,183.851</u>
- Local	2	420.887
- Foreign	50	49,762.964
2) <u>Paid</u>	<u>144</u>	<u>48,269.060</u>
- Local	3	701.747
- Foreign	141	47,567.313
3) <u>Amended</u>	<u>57</u>	
- Local	2	-
- Foreign	55	-
Second- Collection Transactions:		
<u>Bills for Collection</u>	-	-
a-Incoming	-	-
b-Paid-up	-	-
Third- Drafts for Collection	89	83.700

Fourth- Labor Force at CBK:

In fulfillment of work requirements, CBK's total staff numbers reached 1011 at the end of FY 2012/13 against 965 at the end of the previous fiscal year. Kuwaiti employees increased to 892 (88% of the total) at the end of FY 2012/13 from 849 (87.97% of the total) at the end of the previous fiscal year. The Bank has employed 91 staff during FY 2012/13 of which 81 were Kuwaitis (89% of total recruits) against 51 during the previous fiscal year of which 49 were Kuwaitis (96% of total recruits).

CBK has continued to participate in regional, Arab and international conferences and meetings addressing economic, financial, banking and IT topics. In this course, (200) staff were delegated to attend (99) conferences and meetings abroad during FY 2012/13 against (186) staff delegated to attend (100) similar events during the previous FY 2011/2012.

CBK has also arranged for the enrollment of bank's staff with local and foreign universities for their master or doctorate degrees. During FY 2012/13, (3) staff have qualified for internal scholarships.

In fulfillment of staff training needs and work requirements, CBK, in coordination with specialized training bodies have organized different programs, invited competent lecturers from within CBK, and delegated a number of CBK's staff to attend programs, courses, seminars and specialized workshops on banking, finance, economics, administration and IT as follows:

A- Inside Kuwait:

A total of (659) staff were delegated during FY 2012/13 to attend (143) training courses in coordination with local bodies including (Institute of Banking Studies, The Arab Planning Institute, Kuwait Institute for Scientific Research, a number of local banks and financial institutions, specialized private local training bodies, audit bureaus, and Civil Service Commission). On another front, (974) staff were delegated to attend (197) training programs in Kuwait during the previous FY 2011/12.

B- Outside Kuwait:

In coordination with a number of training bodies and specialized institutions including (Economic Policy Institute of the Arab Monetary Fund, Union of Arab Banks, Arab and foreign central banks, International Monetary Fund, the World Bank, Bank of England, U.S. Federal Reserve Bank and U.S. Federal Reserve System), (149) staff were delegated to attend (106) regional, Arab and international courses during FY 2012/13 addressing banking, financial and economic topics. On another front, (147) employees were delegated to attend (106) training programs outside Kuwait during the previous FY 2011/12.

CBK regularly polarizes Kuwaiti fresh graduates holding university degrees/diplomas to join CBK's internship programs in preparation for recruitment at CBK. Selected interns attend orientation, specialized and English language programs organized in collaboration with the Institute of Banking Studies.

For the purpose of ensuring fair opportunities and select the appropriate applicants among the newly graduates holders of university/diploma degrees, CBK has prepared a number of tests including technical, behavioral, emotional intelligence and general information questions on CBK's work fields. These tests became applicable as of July 2008. During FY 2012/13, 30 university and 19 diploma fresh graduates were selected for the internship programs at CBK. 48 interns of university graduates, and 10 interns of applied institutions graduates were employed by CBK after completion of the training programs, (against 33 and 9 interns respectively, during the previous fiscal year).

CBK in collaboration with other local banks has participated, for the third consecutive year, in programs for recruiting and training Kuwaiti graduates within the banking sector. The programs were organized by the Institute of Banking Studies under the supervision of the CBK. Each bank selects 3 interns/university graduates after completion of one-year program covering theoretical and practical training inside and outside Kuwait.

In the same context, CBK has approved study applications for (18) staff during FY 2012/13. Staff are allowed to attend classes only after the official working hours in accordance with CBK's applicable rules and by laws.

In pursuance of CBK's training programs designed for students of universities and institutions at CBK's departments and offices during FY 2012/13, (3) students of Accounting - College of Administrative Sciences- Kuwait University and (6) students from the Public Authority for Applied Education and Training Institute - secretarial and office administration

(Males), were trained during the period from 10/6/2012 to 26/7/2012. And (5) students from the Faculty of Business Studies were trained during the period from 10/6/2012 to 1/8/2012.

Fifth- Other Activities:

CBK has continued its efforts during FY 2012/13 towards upgrading the infrastructure of information technology in line with the best international practices. Main efforts included the upgrading of CBK's business continuity program intended for mitigating the impact of risks and disasters through documentation of transactions' procedures and priorities, developing a back-up work plan in the event of natural disasters or deliberate actions. CBK has also continued to apply the Advanced Time Series System which maintains the time series data, extracts reports and allows users to conduct the statistical processes and analysis of the time series. A contract was signed with the company/supplier of the electronic cheque clearing system enabling electronic clearance of checks amongst the banks operating in Kuwait. Moreover, many CBK's projects have been or are being implemented including: updating the core system for banks' control, installation of a new recording system for clients' complaints in banks, exchange and investment companies, and usage of the magnetic ink technology system on CBK's networks.

CBK has continued during FY 2012/13 to publish various analytical and statistical periodicals in Arabic and English languages, distributed locally and internationally to authorities/individuals concerned in the monetary, banking, financial and economic developments in the State of Kuwait. In

addition, CBK has continued updating the contents of its website covering information, data and statistics on the domestic financial and banking sector and other national economy sectors, in addition to basic information about CBK. Worth mentioning is that, CBK has had the new website designed and established according to the latest international standards. The new website is scheduled to be launched during FY 2013/14.

- **CBK's New Headquarters**

Budget approved for CBK's New Headquarters reached KD 156 million, including KD 125.5 million for construction and KD 30.5 million for furnishing and interiors. Construction's cost includes: the cost of the project manager, engineering consultant, on-site equipment contract, main contract, fortified rooms, and CBK's coffer, etc. Number of modulatory orders approved reached (29), in addition to (11) work orders to be modified to modulatory orders after the approval of final cost which is still within the percentage allowed (10%) according to the laws of the State. The cost of building constructions is also within the limit approved KD 125.5 million. Many of the modifications orders are cancelations resulting in financial surplus. The increase in prices of the construction materials and various goods and services did not affect the total value of the contract regardless of the length of the project's period, due to the fixed value of the contract. CBK has continued its persistent efforts during FY 2012/13 to speed up and finalize the remaining stages. This resulted in the completion of 79% of the project at the end of FY 2012/13, of which 19% was accomplished in 2012, as well as 90% of the documents of the tender for interior furnishing of staff

floors. CBK is making serious and persistent efforts to ensure the completion of the building as early as possible.

Sixth: The Central Bank of Kuwait
Balance Sheet and Profit & Loss Account
For the Fiscal Year Ended 31 March 2013

AUDITORS' REPORT

We have examined the financial statements of the Central Bank of Kuwait ("The Bank"). 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 real financial position of CBK on 31 March 2013 and of the results of its operations for the year then ended, in compliance with Law No. 32 of the year 1968 and amendments thereof.

Furthermore, in our opinion, proper books of account have been maintained and the financial statements are in accordance therewith, and the preparation of an inventory was duly carried out.

Waleed Abdullah Al-Oseimi

Register of Accountants & Auditors

License No. 68 A -

Al-Aiban, Al-Osaimi

of ERNST & YOUNG

Safi Abdulaziz Al-Mutawa

Accountant & Auditor

License No. 138 A -

KPMG, Safi Al-Mutawa & Partners & Partners

of KPMG International

3 May 2013
State of Kuwait

CENTRAL BANK OF KUWAIT

BALANCE SHEET AS AT 31 MARCH 2013**(AMOUNTS IN KD)**

Assets	Notes	31 March 2013	31 March 2012
Gold		31,736,361	31,736,361
Cash, Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions		206,572,741	194,831,712
Deposits and Investments in Foreign Currency	3	7,793,775,790	6,563,692,330
Other Assets	4	29,730,724	26,501,118
		<u>8,061,815,616</u>	<u>6,816,761,521</u>
Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts	11	2,684,566,263	3,016,582,780

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

CENTRAL BANK OF KUWAIT

BALANCE SHEET AS AT 31 MARCH 2013**(AMOUNTS IN KD)**

Equity and Liabilities	Notes	31 March 2013	31 March 2012
Capital - Fully Paid Up		5,000,000	5,000,000
General Reserve Fund	5	295,000,000	295,000,000
Special Account	6	401,629,136	280,235,501
Profit for the Year		15,887,745	46,573,275
Currency in Circulation	7	1,392,422,677	1,203,578,925
CBK Bonds Issued	8	1,909,000,000	1,704,000,000
Government Accounts		704,549,662	515,145,695
Accounts of Banking System Liquidity Support	9	1,000,000	1,000,000
Local Banks' Current Accounts and Deposits with CBK	10	2,988,923,526	2,445,739,487
International Institutions		6,205,515	6,378,068
Collateral against Documentary Credits	11	175,743,955	177,589,104
Other Liabilities	12	166,453,764	136,521,466
		8,061,815,616	6,816,761,521
Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts	11	2,684,566,263	3,016,582,780

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

CENTRAL BANK OF KUWAIT

**PROFIT & LOSS ACCOUNT FOR
FY ENDED 31 MARCH 2013
(KD)**

	Notes	13 March 2013	13 March 2012
Interest & Revenues from Investments		82,250,565	94,643,618
Expenses of Interest and Commissions		<u>(50,162)</u>	<u>(66,300)</u>
		82,200,403	94,577,318
Other Revenues		<u>505,645</u>	<u>657,914</u>
Operating Revenues		82,706,048	95,235,232
Operating Expenses	13	<u>(66,818,303)</u>	<u>(48,661,957)</u>
Net Profit for the year		<u>15,887,745</u>	<u>46,573,275</u>
Disposed of according to Article 17 of Law No. 32 of 1968 and its amendments, as follows: to the Government's Account	5	<u>15,887,745</u>	<u>46,573,275</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
(31 MARCH 2013)**

1- Activities:

The Central Bank of Kuwait (“The Bank”) is incorporated by Law No. 32 of the year 1968 and amendments thereof. The CBK is a public institution with an independent juristic personality, and is entrusted with issuing the local currency on behalf of the State of Kuwait, ensuring the stability of the Kuwaiti currency and its free convertibility into other foreign currencies, drawing the monetary and credit policies, and the supervision of the banking and financial system, in addition to serving as a banker and financial advisor to the Government.

2- Significant Accounting Policies:

The financial data were prepared in accordance with Law No. 32 of the year 1968 and amendments thereof. The applied significant accounting policies are as follows:

(a) Gold:

In accordance with the Amiri Decree of 4 July 1978, gold is valued at KD 12.500 per fine ounce.

(b) Local Bonds and Public Debt Instruments:

Public Debt Instruments are recorded at purchase cost.

(c) Cost of Money Market Operations:

The cost arising from intervention operations in the money market (CBK Bonds issued, local banks deposits and tawarruq operations) is charged to the Ministry of Finance Account/cost of supporting money market operations, according to the agreement between the Bank and the Ministry of Finance (Note 12).

(d) Revenue Recognition:

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

(e) Capital Expenditure:

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

(f) Foreign Currencies:

In accordance with Article 48 of Law No. 32 of the year 1968 and amendments thereof and the Amiri Decree of 4 July 1978, all cash assets and liabilities in foreign currencies are revaluated at the exchange rates prevalent on the date of the preparation of the balance sheet, and the resulting gains or losses are taken to the special account in the balance sheet (Note 6).

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

	<u>2012/13</u>	<u>2011/12</u>
Deposits with Foreign Banks and Institutions	7,789,503,790	6,559,526,830
Central Bank's Facilities to the International Bank for Reconstruction and Development	4,272,000	4,165,500
	<u>7,793,775,790</u>	<u>6,563,692,330</u>

4- Other Assets (KD):

	<u>2012/13</u>	<u>2011/12</u>
Interest Receivable on Deposits and Other Assets	13,705,862	9,569,193
Investments (KD)	2,791,210	2,791,210
Prepaid Expenses	449,718	354,283
Advance Payments	6,199,247	9,229,300
Other Debit Balances	6,584,687	4,557,132
	<u>29,730,724</u>	<u>26,501,118</u>

5- General Reserve Fund:

In accordance with Article 17, paragraphs 3 (a) and (b) of Law No. 32 of the year 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 balance of the Fund. In 1985, the Board's recommendation to increase the balance of the fund to KD 179 million was approved by the Minister of Finance and Economy. In accordance with the Board's decision dated 5 May 2003, and the approval of the Minister of Finance dated 7 May 2003, it was agreed to increase the balance of CBK General Reserve Fund by KD 116 million to KD 295 million, by transferring half of CBK net annual profits to the Fund balance.

Therefore, no amount has been allocated since 2007, where the balance of the reserve has reached to KD 295 million.

6- Special Account (KD):

	2012/13	2011/12
Balance at the Beginning of the Year	280,235,501	315,419,063
Net difference in foreign currency, resulting from revaluation of cash assets and liabilities in foreign currencies	121,393,635	35,183,562
Balance at the end of the Year	401,629,136	280,235,501

The special account represents the net difference accumulating from the revaluation of cash assets and liabilities in foreign currencies, and the profit resulting from the withdrawal of currency banknotes from circulation, based on both Article 48 of Law No. 32 of the year 1968 and amendments thereof, and the Amiri Decree of 4 July 1978.

7- Currency in Circulation (KD):

	2012/13	2011/12
Cash reserve and currency in circulation	2,349,314,450	1,746,939,450
Less: Currency in the CBK's Vaults	(956,891,773)	(543,360,525)
	<u>1,392,422,677</u>	<u>1,203,578,925</u>

Currency in the CBK's vaults includes cash prepared for circulation (withdraw/deposit), invalid cash prepared to be destroyed, and the strategic cash reserve.

8- Issued Bonds:

CBK bonds are negotiable and only purchased by local banks and local investment companies subject to CBK's supervision. The CBK uses these bonds in domestic liquidity management.

9- Banking System Liquidity Support Account:

Represents the amount transferred to the Central Bank according to the instructions of the Ministry of Finance - pursuant to the requirements of paragraph (e) in Article 31 of Law No. 32 of the year 1968 and amendments thereof, concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, to support the banking system liquidity.

10- Local Banks' Current Accounts and Deposits with CBK (KD):

	2012/13	2011/12
Current Accounts	300,891,534	296,794,866
Deposits	965,000,000	348,000,000
Tawarruq Operations (withdrawals)	1,723,031,992	1,800,944,621
	<u>2,988,923,526</u>	<u>2,445,739,487</u>

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

	2012/13	2011/12
a- Accounts Managed by the CBK on Behalf of the Government of Kuwait	2,519,839,104	2,849,642,614
b- Contra Accounts:		
Documentary Credits	161,720,582	163,883,963
Memorial Banknotes and Coins	3,006,577	2,822,530
Collections According to Law No. 41 of the year 1993	-	233,673
	<u>164,727,159</u>	<u>166,940,166</u>
	<u>2,684,566,263</u>	<u>3,016,582,780</u>

On 31 March 2013, deposits of KD 175,743,955 (KD 177,589,104: 2012) were held against the documentary credits referred to above.

12- Other Liabilities (KD):

	2012/13	2011/12
Payable Expenses	15,733,354	7,599,507
Other Credit Balances	148,504,996	126,607,814
Ministry of Finance - Cost of Supporting Money Market Operations (Note 2)	2,215,414	2,314,145
	<u>166,453,764</u>	<u>136,521,466</u>

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

The Balance of Ministry of Finance - Cost of Supporting Money Market Operations represents the remaining funds transferred from the Ministry of Finance after charging the cost of supporting money market operations carried out by CBK according to the agreement between CBK and the Ministry of Finance.

13- Operating Expenses (KD):

	<u>2012/13</u>	<u>2011/12</u>
Staff Costs	33,665,256	28,144,869
Administrative and Computer Operation Costs	4,166,856	3,718,723
Purchases of Furniture and Equipment	752,765	43,701
Production and Shipment of Currency	3,648,149	934,059
Miscellaneous	1,989,718	1,927,911
Construction Costs	22,595,559	13,892,694
	<u>66,818,303</u>	<u>48,661,957</u>

14- Promissory Notes Held:

On 31 March 2013, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 465,013,627 (KD 483,311,749: 2012).

Contents	Page
-----------------	-------------

Introduction

First : Key Developments of Monetary Policy and Monetary and Banking Indicators

1 - Monetary Developments

2 - Banking Developments

Second : Supervision and Oversight

Third : Major Banking Operations Performed by CBK

Fourth : Labor Force at CBK

Fifth : Other Activities

Sixth : The Central Bank of Kuwait Balance Sheet and Profit & Loss Account for the Fiscal Year Ended 31 March 2012

- Auditors' Report

- Balance Sheet

Assets

Equity and Liabilities

- Profit & Loss Account

- Notes to the Financial Statements

For correspondence and enquiries:

Postal address: Central Bank of Kuwait
Economic Research Department
P.O. Box 526 Safat
13006 Kuwait
State of Kuwait

Telephone: +(965) 2240 3257

Facsimile: +(965) 2244 0887

E-mail Address: cbk@cbk.gov.kw

Website: <http://www.cbk.gov.kw>

ISSN 1029-4589

Produced and printed by:
Central Bank Press