



بنك الكويت المركزي
CENTRAL BANK OF KUWAIT



THE FORTIETH
ANNUAL REPORT

FOR THE FISCAL YEAR 2011/12

**The Annual Report of the Central Bank of Kuwait
for the Fiscal Year 2011/12**

Introduction:

It pleases me to present this Fortieth Annual Report of the Central Bank of Kuwait (CBK) for Fiscal Year (FY) 2011/12, which includes the Auditors' Report of the CBK financial statements, reflected by the Balance Sheet as of 31 March 2012, and the Profit and Loss Account for the mentioned fiscal year. As in previous years, this Report begins with a brief overview of the most salient banking and financial developments in the Kuwaiti economy during FY 2011/12, alongside the most important decisions, procedures, and operations carried out by CBK through its different departments and offices in various fields relating to monetary and banking affairs during this fiscal year including the most important instructions, circulars, and supervisory regulations issued by CBK to the banking and financial units subject to its supervision.

Within this context, CBK focused its efforts during FY 2011/12 to strengthen the foundation of monetary and financial stability in the country through drawing and implementing the monetary policy as well as upgrading supervision and oversight of banking and financial system units, in order to enhance economic growth and create an environment that is supportive of the efficient function of the local financial and banking system units.

In the area of monetary developments, FY 2011/12 has witnessed many important developments. Money Supply in its broad definition (M2) increased by KD 1996.6 million or 7.4% to KD 29006 million at the end of the mentioned fiscal year, against KD 27009.4 million at the end of the previous fiscal year. This increase in Money Supply reflects the persistent efforts of CBK to provide a suitable environment that supports meeting the financing needs of the various local economic sectors. Within this context, the balances of the utilized cash portion of credit facilities extended by local banks to the various economic sectors witnessed a rise of KD 760.1 million or 3% to reach KD 25995.3 million

at the end of FY 2011/12, against KD 25235.2 million at the end of FY 2010/11. Additionally, the balances of the resident private sector deposits with local banks increased to KD 27965.7 million during FY 2011/12, against KD 26035.2 million at the end of the previous fiscal year, i.e. a rise of KD 1930.6 million or 7.4%. Consequently, the aggregate balance sheet of local banks increased to KD 45329.2 million at the end of FY 2011/12, against KD 42598.5 million at the end of the previous fiscal year, i.e. a rise of KD 2730.9 million or 6.4%. On the other hand, the aggregate balance sheet of local investment companies registered with CBK decreased by KD 1143.8 million or 8.6% at the end of FY 2011/12 to reach KD 12206.9 million, against KD 13288.3 million at the end of FY 2010/11.

Within the context of supervisory developments, CBK continued its persistent efforts during FY 2011/12 in the area of supervision and oversight of registered local banking and financial sector units as part of its efforts aimed at enhancing their financial strength in line with international standards for effective banking supervision to develop local banks' abilities in risk management and coping with exposure to stress situations.

On another front, during FY 2011/12, CBK continued its efforts toward developing and modernizing the infrastructure and the information technology used by CBK to keep pace with the latest international developments in the field. CBK continued its efforts during the mentioned fiscal year to develop and update the technical systems utilized in its departments and offices, and worked on drawing up and implementing technical programs to ensure the continuity of operations in CBK under all circumstances, and to provide better services to CBK's clients in accordance with the latest international standards in this regard.

Additionally, FY 2011/12 witnessed continuation of CBK's efforts towards development of its manpower to upgrade their professional capabilities through specialized training programs, both local and international, that contribute to raise their performance and efficiency, and retain its distinguished national employees as well as attract more of them to join CBK so as to enhance its capacity to carry out the tasks entrusted to it.

Before closing, it pleases me to extend to His Excellency Sheikh Salem Abdulaziz Al-Sabah our highest gratitude and appreciation for his recognized efforts in leading the CBK and maintaining its achievements during his tenure as the Governor of the Central Bank of Kuwait.

In closing, we pray to the Almighty to grant success to our efforts and endeavors in achieving benefits for our beloved homeland, under the patronage of His Highness the Emir, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, may God save him; His Highness the Crown Prince, Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, may God protect him; and His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may God guide him.

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

Preface:

The Central Bank of Kuwait (CBK) continued during FY 2011/12 its efforts to achieve 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 issuing the national currency on behalf of the State, maintaining the relative stability in the exchange rate of the national currency against foreign currencies, securing its free convertibility, drawing and implementing monetary policy, rationalizing credit policies of local financial and banking sector units, developing supervision and oversight systems and programs over the sectors' units so as to support the growth of the national economy on a firm foundation and contribute to an atmosphere conducive to financial and monetary stability in the country.

Within this context, CBK's projects in the Medium Term Development Plan (2010/11-2013/14) came to reflect its role and policies that were included in the government's work program. During FY 2011/12, CBK continued its efforts to implement and follow up its projects included in the mentioned Medium Term Development Plan which are of a continuing nature and relate to the goals that CBK is seeking to achieve. This report highlights CBK's efforts during FY 2011/12 within its projects that are included in the Annual Plan for that fiscal year as follows:

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

- **Strengthening CBK's efforts in drawing and implementing the monetary policy which would contribute to strengthening the foundations of monetary stability.**

This section of the Report highlights notable developments in the country's major monetary and banking aggregates and indicators during FY 2011/12 as reflected by data related to money supply, interest rates, exchange rate of the KD against major currencies,

banking credit, domestic liquidity, issuance of public debt instruments, and aggregate balance sheet of local banks and investment companies. Some parts of these developments reflect CBK efforts in areas related to drawing and implementing the monetary policy, and supervision and oversight of banking and financial system units.

Data related to the country's major monetary and banking aggregates and indicators during FY 2011/12 indicate positive developments in these aggregates and indicators during the mentioned fiscal year, which can be addressed as follows:

1- Monetary Developments:

A-Money Supply:

Money Supply in its Broad Definition (M2) rose to KD 29006 million at the end of FY 2011/12, against KD 27009.4 million at the end of FY 2010/11, i.e. an increase by KD 1996.6 million or 7.4%, compared to an increase of KD 1371.4 million or 5.3% during the previous fiscal year. This rise in Money Supply in its Broad Definition (M2) came as a result of CBK's continuous efforts in regulating the levels of domestic liquidity which contributes to providing the funding requirements for various domestic economic sectors.

The mentioned rise in Money Supply in its Broad Definition (M2) came as a result of the increase in Money (the narrow definition of money supply M1) by KD 730.2 million or 11.3% (from KD 6442.3 million to KD 7172.5 million), and Quasi-money by KD 1266.4 million or 6.2% (from KD 20567 million to KD 21833.5 million).

Factors affecting changes in money supply (M2) during FY 2011/12 within the monetary survey of CBK and local banks⁽¹⁾, the mentioned growth in Money Supply in its Broad Definition (M2) of KD 1996.6 million or 7.4% came as a result of the increase in both net

⁽¹⁾Includes, at the end of the fiscal year 2011/12, 10 Kuwaiti commercial banks (traditional banks and those operating in accordance to the Islamic Sharia), one specialized bank, and 10 branches of foreign banks (one of which is operating in accordance to the Islamic Sharia).

domestic assets of the mentioned institutions by KD 573.7 million, and net foreign assets by KD 1422.9 million. The mentioned rise in net domestic assets resulted mainly from the increase of local banks' claims on the private sector by KD 977.1 million or 3.5% in a positive development reflecting in part the local banks' continuous provision of bank credit to domestic economic sectors.

Money Supply Developments (KD Million)

| End of Period | 2009/10 | 2010/11 | 2011/12 | Change in 2011/12 over 2010/11 | |
|--------------------------|----------------|----------------|----------------|-----------------------------------|-------------|
| | | | | Value | % |
| Money Supply (M2) | 25637.9 | 27009.4 | 29006 | 1996.6 | 7.4 |
| Money (M1) of which: | <u>5248.3</u> | <u>6442.3</u> | <u>7172.5</u> | <u>730.2</u> | <u>11.3</u> |
| Sight Deposits | 4445.7 | 5468.1 | 6132.3 | 664.2 | 12.1 |
| Quasi Money | <u>20389.6</u> | <u>20567</u> | <u>21833.5</u> | <u>1266.4</u> | <u>6.2</u> |
| Deposits in KD | 17832.4 | 18308.1 | 19317.1 | 1009 | 5.5 |
| Deposits in FC | 2557.2 | 2258.9 | 257.4 | 257.4 | 11.4 |

Source: Central Bank of Kuwait.

As for the above mentioned rise in net foreign assets by KD 1422.9 million during FY 2011/12, it was mainly due to the increase in net foreign assets of CBK by KD 249.8 million or 3.8%.

B- Domestic Interest Rates:

The discount rate is considered a pivotal rate to which are linked, within specified margins, maximum rates of interest on KD-lending transactions at the local banking and financial system units. Accordingly, cutting (or raising) the discount rate at CBK will lead to an equal reduction (or increase) in the maximum interest rates on KD lending transactions at the local banking and financial system units.

In light of CBK's continuous follow-up of economic, monetary and local banking developments on the one hand, the developments of interest rates on major foreign currencies on the other hand, and as a continuation of CBK efforts to strengthen the foundations of growth in the domestic economy and reduce inflationary pressures, as well as maintain the attractiveness and competitiveness of KD as a store of domestic savings, CBK kept its discount rate during FY 2011/12 at 2.5% since 8th February, 2010.

Within this context, regarding interest rates on both customers' KD time deposits and customers' US dollar time deposits with local banks, the interest rates on customers' KD time deposits with local banks witnessed a decline during FY 2011/12 compared to the previous fiscal year. Specifically, interest rates on customers' KD time deposits with local banks of one-month maturity and three-month maturity decreased to 0.857% and 1.078% respectively, against 1.023% and 1.206% for the two mentioned terms respectively during the previous fiscal year.

On the other hand, interest rates on customers' US dollar time deposits with local banks of one-month maturity and three-month maturity witnessed a slight decline during FY 2011/12 to 0.228% and 0.332% respectively, against 0.257% and 0.384% for the two mentioned terms respectively during the previous fiscal year. In light of that, the margin between the average interest rates on KD and US dollar deposits for one-month maturity and three-month maturity during FY 2011/12 reached 0.630 percentage point and 0.747 percentage point respectively in favor of KD deposits, against 0.765 percentage point and 0.821 percentage point respectively in favor of KD deposits during the previous fiscal year.

In the same direction, the average interest rates on local interbank KD deposits of one-month maturity witnessed a decline during FY 2011/12 to 0.689%, against 0.738% for the mentioned term during the previous fiscal year. The average interest rates on the public debt instruments were stable at 1.25% for one-year treasury bonds during both the fiscal year 2010/11 and 2011/12.

C- The KD Exchange Rate:

During FY 2011/12, CBK continued its efforts to maintain the relative stability of the KD exchange rate against other major currencies, in light of the KD exchange rate policy that has been in effect since 20/5/2007 pegging the Kuwaiti Dinar to a special weighted basket of currencies of countries that have significant trade and financial relations with the State of Kuwait.

In this regard, the average exchange rate of the US dollar against the KD for FY 2011/12 reached 278.08 fils (per US dollar), against 287.87 fils during the previous fiscal year, i.e. a decrease by 0.79 fils or 0.28%. The difference between the highest (279.5 fils) and the lowest (271.8 fils) exchange rates of the US dollar against the KD during FY 2011/12 was 2.8%, whereas the exchange rates of the US dollar witnessed significant fluctuations against other major currencies during FY 2011/12. The difference between the highest and the lowest exchange rates of the US Dollar was 9.2% against the Pound Sterling, 31.1% against the Swiss Franc, 17.4% against the Euro, and 12.7% against the Japanese Yen.

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

| FY | 2010/11 | | | | 2011/12 | | | |
|----------------------|---------------|--------------|---------------|---------|---------------|--------------|---------------|---------|
| | Highest Price | Lowest Price | End of Period | Average | Highest Price | Lowest Price | End of Period | Average |
| Kuwaiti Dinar (fils) | 293.20 | 276.50 | 277.25 | 278.87 | 279.5 | 271.80 | 277.65 | 278.08 |
| Pound Sterling | 0.6996 | 0.6106 | 0.6245 | 0.6248 | 0.6530 | 0.5980 | 0.6266 | 0.6371 |
| Euro | 0.8405 | 0.7032 | 0.7096 | 0.7329 | 0.7896 | 0.6728 | 0.7502 | 0.7637 |
| Swiss Franc | 1.1667 | 0.9002 | 0.9156 | 0.9430 | 0.9566 | 0.7299 | 0.9043 | 0.9231 |
| Japanese Yen | 94.895 | 97.025 | 81.710 | 82.236 | 85.445 | 75.820 | 82.940 | 79.041 |

Source: Central Bank of Kuwait.

D- Banking Credit:

Balances of the utilized cash portion of credit facilities extended by local banks to the various economic sectors during FY 2011/12 witnessed a rise of KD 760.1 million or 3% to reach KD 25995.3 million at the end of the mentioned fiscal year, compared to KD 25235.2 million at the end of the previous fiscal year. This rise in credit facilities was

an outcome of the rise in credit extended to the Personal Facilities sector (by KD 767.7 million or 9.1%), the Industry sector (by KD 112.2 million or 6.7%), the Trade sector (by KD 130 million or 5.7%), and the Real Estate sector (by KD 113.6 million or 1.7%). On the other side, the balances of the utilized cash portion of credit facilities extended by local banks to the Non-bank Financial Institutions sector and the Construction sector declined by KD 495 million (or 18%), and by KD 41 million (or 2.3%) respectively during FY 2011/12.

Development of Balances of Utilized Cash Portion of Credit Facilities (by Residents)
(KD Million)

| End of Period | 2010/11 (1) | 2011/12 (2) | Change in (2) over (1) | |
|--|----------------|----------------|---------------------------|------------|
| | | | Value | (%) |
| Total utilized cash portion of credit facilities, of which: | 25253.3 | 25995.3 | 760.1 | 3.0 |
| • Trade | 2268.2 | 2398.1 | 130 | 5.7 |
| • Industry | 1668.4 | 1780.6 | 112.2 | 6.7 |
| • Construction | 1762.6 | 1721.5 | (41.1) | (2.3) |
| • Non-bank Financial Institutions | 2713.1 | 2217.7 | (495.3) | (18.3) |
| • Personal Facilities | 8413.1 | 9180.8 | 767.7 | 9.1 |
| • Real-Estate | 6641.5 | 6755.1 | 113.6 | 1.7 |

Source: Central Bank of Kuwait.

E- Domestic Liquidity:

CBK continued its efforts in managing the levels of domestic liquidity during FY 2011/12 in line with local economic, monetary, and banking developments. CBK uses different monetary instruments to manage domestic liquidity levels, notably the scheme of accepting time deposits from local banks, issuing CBK bonds, and managing public debt instruments on behalf of the Ministry of Finance, in addition to direct liquidity injection to the domestic banking sector.

In this regard, balances of time deposits of local banks with CBK, within the scheme of accepting time deposits from local banks, witnessed a decrease during FY 2011/12 by KD 16.7 million or 1% to KD 2165.6 million at the end of the mentioned fiscal year, compared

to KD 2148.9 million at the end of the previous fiscal year. Moreover, CBK made 36 issues of its bonds with a total nominal value of KD 4966 million during FY 2011/12, and during the same fiscal year, 35 previous issues of these bonds with a total nominal value of KD 4369 million matured. As a result, the outstanding balance of CBK bonds rose to KD 1704 million at the end of FY 2010/11, against its level of KD 1575 million at the end of the previous fiscal year, i.e. a rise of KD 129 million or 8.2%.

F- Issuance of Public Debt Instruments:

CBK made 8 issues of Treasury Bills during FY 2011/12 with a total nominal value of KD 525 million, and 6 previous issues of Treasury Bills with a total nominal value of KD 550 million matured during that period. In addition, CBK made 20 issues of Treasury Bonds during FY 2011/12 with a total nominal value of KD 1700 million, while 20 previous issues of Treasury Bonds with a total nominal value of KD 1740 million matured during FY 2011/12. Accordingly, the total outstanding balance of public debt instruments (Treasury Bills and Bonds) decreased by KD 65 million or 3% to KD 1973 million at the end of FY 2011/12, against KD 2038 million at the end of the previous fiscal year. At the end of FY 2011/12, the outstanding balance of public debt instruments among institutions holding them were distributed between local banks' holdings which totaled KD 1905.7 million (97%), and other institutions' holdings which amounted to KD 67.3 million (3%).

2- Banking Developments:

A- The Aggregate Balance Sheet of Local Banks:

Data available indicate a rise in the aggregate balance sheet of local banks to KD 45329.2 million at the end of FY 2011/12, against KD 42598.5 million at the end of FY 2010/11, i.e. a rise by KD 2730.9 million or 6.4%. This rise in the aggregate balance sheet of local banks came as an outcome of various developments in the components of both sides (Assets and Liabilities) of the balance sheet, the most notable of which are highlighted as follows:

Aggregate Balance Sheet of Local Banks

(KD Million)

| Items | Balances at the end of the year | | |
|-------------------------------------|---------------------------------|-----------------------|-----------------------|
| | 2009/10 | 2010/11 | 2011/12 |
| Assets: | | | |
| Cash | 140.4 | 160.1 | 163.4 |
| Claims on CBK | <u>2759.9</u> | <u>4006.3</u> | <u>4135.7</u> |
| Balances (demand deposits) with CBK | 282.4 | 265.8 | 282.8 |
| CBK Bonds | 1243.5 | 1575.0 | 1704.0 |
| Time Deposits with CBK | 1233.9 | <u>2165.6</u> | 2148.9 |
| Local Interbank Deposits | 598.7 | 851.1 | 1058.8 |
| Claims On Government | <u>1863.9</u> | <u>1815.0</u> | <u>1905.7</u> |
| Treasury Bonds | 1713.9 | 1665.0 | 1780.7 |
| Treasury Bills | 150.0 | 150.0 | 125.0 |
| Claims on Private Sector | <u>27093.0</u> | <u>27652.8</u> | <u>28629.9</u> |
| Credit Facilities to Residents | 25120.7 | 25253.3 | 25995.3 |
| Other Domestic Investments | 1972.3 | 2417.6 | 2634.6 |
| Foreign Assets | <u>7258.9</u> | <u>7290.1</u> | <u>8510.2</u> |
| Deposits with Foreign Banks | 3414.5 | 3685.8 | 4689.4 |
| Credit Facilities to Non-Residents | 1224.1 | 767.6 | 666.3 |
| Foreign Investments | 2215.3 | 2448.3 | 2753.2 |
| Other Foreign Assets | 4.4.9 | 388.4 | 401.3 |
| Other Assets | 862.1 | 823.0 | 925.5 |
| Total Assets = Liabilities | <u>40576.8</u> | <u>42598.5</u> | <u>45329.2</u> |
| Liabilities: | | | |
| Private Sector Deposits | <u>24835.3</u> | <u>26035.2</u> | <u>27965.7</u> |
| KD Deposits | 22278.1 | 23776.2 | 25449.4 |
| Foreign Currency Deposits | 2557.2 | 2258.9 | 2516.4 |
| Government Deposits | 3709.4 | 3826.8 | 3926.8 |
| Local Interbank Deposits | 699.8 | 765.5 | 922.4 |
| Shareholders' Equity | 5191.4 | 5986.4 | 6318.7 |
| Foreign Liabilities | <u>2790.6</u> | <u>3146.9</u> | <u>3193.9</u> |
| Non-Resident Bank Deposits | 1921.3 | 1878.3 | 2080.6 |
| Other Non-Resident Deposits | 844.0 | 1125.4 | 960.7 |
| Other Foreign Liabilities | 25.3 | 143.3 | 152.6 |
| Other Liabilities | 3350.2 | 2837.9 | 3001.7 |
| Contra Accounts: | <u>7121.5</u> | <u>7468.3</u> | <u>7576.9</u> |
| Bank Guarantees | 5132.4 | 5726.8 | 5957.2 |
| Obligations within issued data | 709.3 | 389.5 | 374.4 |
| Documentary Credits | 944.0 | 988.3 | 958.7 |
| Bank Acceptances | 335.8 | 363.6 | 436.3 |

Source: Central Bank of Kuwait.

On the Assets Side:

- The balance of local banks' claims on the private sector increased by KD 977.1 million or 3.5% to KD 28629.9 million at the end of FY 2011/12, against KD 27652.7 million at the end of FY 2010/11. This increase resulted from a rise in both the balances of utilized cash portion of credit facilities extended by local banks to various domestic sectors by KD 760.1 million or 3%, to KD 25995.3 million at the end of FY 2011/12, against KD 25235.2 million at the end of the previous fiscal year on the one hand; and the balances of other local investments by KD 217 million or 9% to reach KD 2634.6 million at the end of FY 2011/12, against KD 2417.6 million at the end of the previous fiscal year on the other hand.
- The balance of local banks' claims on CBK increased by KD 129.3 million or 3.2% to KD 4135.7 million at the end of FY 2011/12, against KD 4006.3 million at the end of the previous fiscal year. This rise resulted from an increase in both the balance of local banks' holdings of CBK Bonds by KD 129 million or 8.3% (from KD 1575 million in FY 2010/11 to KD 1704 million in FY 2011/12), and the balance of local banks' sight deposits with CBK by KD 17.0 million or 6.4% (from KD 265.8 million to KD 282.8 million) on the one hand; and the decline in the balance of local banks' time deposits with CBK by KD 16.7 million or 0.8% (from KD 2165.6 million to KD 2148.9 million) on the other hand, between the end of FY 2010/11 and FY 2011/12 respectively.
- The balance of foreign assets of local banks increased by the equivalent of KD 1220.1 million or 16.7% to KD 8510.2 million at the end of FY 2011/12, against KD 7290.1 million at the end of the previous fiscal year. This rise resulted from an increase in balances of local banks' deposits with foreign banks by KD 1003.6 million or 27.2%, local banks' foreign investments by KD 304.9 million or 12.5%, and other foreign assets by KD 12.9 million or 3.3% on the one hand; and the decrease in the balances of the utilized cash portion of credit facilities extended to non-residents by KD 101.3 million or 13.2% on the other hand.

- The balances of local banks' claims on the government increased by KD 90.7 million or 5% to reach KD 1905.7 million at the end of FY 2011/12, against KD 1815.0 million at the end of the previous fiscal year. This increase was the outcome of the rise in the balance of local banks' holdings of Public Debt Instruments (Treasury Bills) by KD 115.7 million or 6.9% to reach KD 1780.7 million at the end of FY 2011/12, against KD 1665.0 million at the end of the previous fiscal year on the one hand, and the decline in the balance of local banks' holdings of Public Debt Instruments (Treasury Bonds) by KD 25 million or 16.7% to reach KD 125 million at the end of FY 2011/12, against KD 150 million at the end of the previous fiscal year on the other hand.

On the Liabilities Side:

- The balances of resident private sector deposits with local banks increased by KD 1930.5 million or 7.4% to KD 27965.7 million at the end of FY 2011/12, against KD 26035.2 million at the end of the previous fiscal year. The mentioned rise came primarily as a result of the increase in the balances of KD deposits by KD 1673.2 million or 7% to KD 25449.4 million at the end of FY 2011/12, against KD 23776.2 million at the end of the previous fiscal year. In addition, the balances of foreign currency deposits also recorded an increase of KD 257.5 million or 11.4% to reach KD 2516.4 million at the end of FY 2011/12, against KD 2258.9 million at the end of the previous fiscal year.
- The balances of government deposits with local banks increased by KD 100 million or 2.6% to KD 3926.8 million at the end of FY 2011/12, against KD 3826.8 million at the end of the previous fiscal year.
- The balances of shareholders' equity with local banks increased by KD 330.6 million or 5.5% to KD 6318.7 million at the end of FY 2011/12, against KD 5988.1 million at the end of the previous fiscal year.

- The balances of foreign liabilities of local banks increased by KD 47.0 million or 1.5% to KD 3193.9 million at the end of FY 2011/12, against KD 3146.9 million at the end of the previous fiscal year. This rise was the outcome of the increase in the balances of non-resident banks' deposits by KD 202.3 million or 10.8%, and balances of other foreign liabilities by KD 9.4 million or 6.6% on the one hand; and the decrease in the balances of other non-residents' deposits by KD 164.7 million or 14.6% during the end of FY 2011/12.

B- The Aggregate Balance Sheet of Local Investment Companies:

The aggregate balance sheet of local investment companies (Traditional and Islamic) at the end of FY 2011/12 reached KD 12336.1 million (for 95 companies), against KD 13288.2 million at the end of FY 2010/11 (for 97 companies), i.e. a decline of KD 952.1 million or 7.2%. This decline was an outcome of various developments on both sides (Assets and Liabilities) of the aggregate balance sheet of local investment companies which can be summarized as follows:

On the Assets Side:

- The balance of total foreign assets recorded a decline by KD 630.1 million or 10.1% to reach the equivalent of KD 5616.8 million at the end of FY 2011/12, compared to the equivalent of KD 6246.9 million at the end of the previous fiscal year. This decline was an outcome of the decrease in the balances of foreign investments (financial and non-financial) by the equivalent of KD 427.4 million or 11.9%, and the balances of credit facilities extended to non-residents by the equivalent of KD 13.4 million or 14.3%, and cash and other balances with foreign banks by the equivalent of KD 107.9 million or 24.8% on the one hand; and the rise in other foreign assets by KD 178.4 million or 21.8% on the other hand.

- Cash and other balances with local banks increased by KD 26.9 million or 4.2% to KD 672 million at the end of FY 2011/12, against KD 645.1 million at the end of the previous fiscal year.
- The balances of customer financing decreased by KD 16.6 million or 1.6% to KD 1049.7 million at the end of FY 2011/12, against KD 1066.3 million at the end of the previous fiscal year.

On the Liabilities Side:

- The balance of financing from residents declined by KD 354.3 million or 10.4% to KD 3040.6 million at the end of FY 2011/12, compared to KD 3394.9 million at the end of FY 2010/11. This decline resulted from the decrease in the balance of financing from investment companies by KD 74.6 million or 24.5%, and the balance of financing from local banks by KD 232.1 million or 8.7% during the mentioned fiscal year.
- The balance of foreign liabilities decreased by KD 802.7 million or 24.4% to KD 2492.9 million at the end of FY 2011/12, compared to KD 3295.6 million at the end of the previous fiscal year.
- The balance of shareholders' equity declined by KD 234.7 million or 4.8% to KD 4645.8 million at the end of FY 2011/12, compared to KD 4880.5 million at the end of the previous fiscal year.

Aggregate Balance Sheet of Local Investment Companies
(KD Million)

| Items | Balances at the end of the year | |
|----------------------------------|---------------------------------|----------------|
| | 2010/11 | 2011/12 |
| Assets: | | |
| Cash and Balances with Banks | 645.1 | 672.0 |
| Customer Financing | <u>1066.3</u> | <u>1049.7</u> |
| Local Investments | <u>3682.5</u> | <u>3278.0</u> |
| Financial Investments | 3301.7 | 2701.5 |
| Non-financial Investments | 380.8 | 576.5 |
| Foreign Assets | 6246.9 | 5616.8 |
| Other Assets | 1647.4 | 1719.6 |
| Assets=Liabilities | 13288.2 | 12336.1 |
| Liabilities: | | |
| Shareholder's Equity | 4880.5 | 4645.8 |
| Financing from Residents | 3394.9 | 3040.6 |
| Bonds, of which Financing Sukuks | 239.0 | 266.3 |
| Foreign Liabilities | 3295.6 | 2492.9 |
| Other Liabilities | 1478.2 | 1890.5 |
| Number of Companies | 97 | 95 |

Source: Central Bank of Kuwait.

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

During FY 2011/12, CBK's efforts in the areas of supervision and oversight have addressed its following projects within the State's Second Annual Plan for FY 2011/12:

- **Intensifying CBK's efforts in the supervision and oversight over the banking and financial system units to increase their efficiency and competitiveness as well as to strengthen financial stability.**
- **Enhancing the financial strength of banking and financial system units.**
- **Modernization of retail banking services.**
- **Modernization of corporate banking services.**
- **Developing services supporting the financial sector.**

In this regard, CBK continued its persistent efforts during FY 2011/12 in the field of supervision and oversight over banking and financial system units registered with it as part

of its efforts to strengthen the foundations of monetary and financial stability in the national economy and to enhance the financial positions of the banking and financial system units in line with the international standards for effective banking supervision which contributes in developing the banks' ability to manage risks, withstand shocks, as well as difficult and stressful circumstances.

Within this context, CBK intensified its supervisory procedures particularly those concerning risk management including following-up the conduct by banks of financial stress tests on a semi-annual basis, as well as to emphasize the importance of internal evaluation of capital adequacy (ICAAP), with the beginning of the transition to oversight using the Risk Based Supervision method. A specialized team was formed in CBK to draw up a transition plan and to develop inspection reports, as well as to establish continuous follow-up mechanisms for the kinds of deviations and other observations discovered. In this context, a risk assessment system was applied in accordance with the CAMEL-BCOM method on local banks, where the quantitative part of the mentioned oversight technique was adopted and a work team was formed to implement this system. The first assessment was conducted on banks according to the position as of 30/6/2011, as well as organizing many training programs on Risk Based Supervision, in addition to applying a new mechanism for financial stress-tests on Kuwaiti banks.

Within the framework of CBK's efforts towards applying the international supervisory standards for fortifying the banking sector as well as increasing its ability to withstand shocks, CBK has started taking the necessary measures for the application of latest supervisory standards issued by the Basel Committee, known as Basel III. A Steering Committee was formed comprising of representatives from the Kuwaiti banks to develop the necessary regulatory controls and instructions. These standards include a package of regulations that would strengthen the quality of capital and financial leverage, as well as enhancing the standards for liquidity ratios aimed at improving liquidity risk management, in addition to enhancing the degree of stability in the use of financial resources according to the structure of uses of these banks, besides the standards aimed at macro-supervisory measures to deal with systemic risks.

Within the framework of this reform package, CBK seeks to apply macro-prudential policies, along with micro-prudential policies in the framework of early warning system to face any systemic risks that may threaten financial stability. A Financial Stability Office was established in August 2011 at the CBK to carry out necessary tasks and responsibilities in this regard.

Also, the preparation of new draft regulations was completed regarding corporate governance standards to substitute the corporate governance standards issued by the CBK in May 2004, taking into account the recommendations of the World Bank Report submitted in October 2010 regarding corporate governance assessment in Kuwaiti banks and the lessons learned from the global financial and economic crisis.

On another front, within the framework of new legislative and supervisory regulations, Law No. 7 of 2010 was issued regarding the establishment of the Capital Markets Authority and regulating the activity of securities, as well as the Ministerial Decree No. 38 of 2011 regarding reorganizing CBK's supervision of finance companies. Supervision of investment companies was transferred from the CBK to the Capital Markets Authority as of 13th September 2011, and the role of the CBK became limited to supervision of financing activities of these companies. Also, the supervision of investment funds was fully transferred to the Capital Markets Authority.

Within the framework of the coordination with the Capital Markets Authority regarding the regulatory functions of the units under the supervision of the CBK, a memorandum of understanding was signed on 11/9/2011 delineating the frameworks for the coordination between the CBK and the Capital Markets Authority regarding matters relating to the units under the supervision and oversight of the CBK. The memorandum contains the coordination aspects on the supervision process with respect to the existing investment companies, the licensing of new companies, as well as aspects of coordination and regulatory procedures on the units under the supervision of the CBK. A permanent joint working team was formed between the CBK and the Capital Markets Authority assigned to

coordinate with respect to the memorandum of understanding signed between the two parties. The team held six meetings during FY 2011/12.

The local financial and banking units under the supervision and oversight of the CBK as of 31/3/2012 comprise 155 units. These units include local banks (21 banks, 5 of which are conventional banks, 1 specialized bank, 5 Islamic banks, and 10 branches of foreign banks including a branch of an Islamic bank), investment companies (95 companies, 51 of which operate in accordance with the provisions of Islamic Sharia), where the CBK's role is restricted to the supervision of financing activity practiced by these companies, exchange companies (39 companies). As previously mentioned, the regulatory functions over the investment funds and investment companies except for the financing activity were transferred from the CBK to the Capital Markets Authority, as of 13/9/2011.

In this context, during FY 2011/12, CBK issued some instructions, controls, and circulars some of which included the evaluation of real estate assets provided as collateral for the financing extended by a bank to clients and which preclude the concerned bank itself from evaluating these assets. The evaluation has to be conducted at least annually by two independent evaluators provided that one of them has to be either the Kuwait Finance House or the Kuwait International Bank. This circular aims to avoid conflicts of interest, as well as to benefit from the experience accumulated by the two banks mentioned in this area.

CBK also gave a careful attention to any large exposures or concentrations risks to credit clients in the Kuwaiti banks, and the mechanism followed by the banks regarding supervision and risk management in this regard by examining the indebtedness data of the 25 largest clients and the relevant parties, as well as the vision of each bank on the level of risk for each of these clients.

In terms of new supervisory regulations on investment companies, new instructions were issued regarding financial leverage ratio, rapid liquidity, and external borrowings, as well

as specifying the required periodic data to follow-up the financing operations performed by the investment companies and the format of submission.

At the level of the CBK's follow-up of banks' activity in the area of financial derivatives, CBK directed the local banks to assign their auditors to conduct a special audit regarding this activity and to evaluate the internal supervisory controls of the bank.

On the other hand, the Supervision sector, as part of its pursuit of developing the support services of the financial sector, has coordinated with the Ministry of Trade and Industry for cooperation in setting the controls and standards for the evaluation of real estate assets put up as collateral to banks, investment companies, and finance companies, in order to facilitate the task of real estate evaluators. Necessary measures are currently being taken for activating this trend in coordination with the concerned Ministry.

Also, the Supervision sector studied comments and proposals submitted by banks through the Union of Kuwaiti banks towards the development of the retail banking and corporate banking services, upon that a set of procedures were identified and implementation was initiated in coordination with the banks.

Third- Main Banking Operations Performed by CBK:

Data indicate that the average of currency issued reached KD 1176.5 million during FY 2011/12, compared to KD 966.5 million during the previous FY, i.e. a rise of KD 210 million or 21.7%. The highest balance of currency issued during FY 2011/12 was KD 1315.1 million reached in August 2011, while the lowest balance was KD 1095.6 million reached in July 2011. In the same direction, currency in circulation (expressed as currency issued minus cash held by local banks) witnessed a rise by KD 66 million or 6.8%, from KD 974.2 million at the end of FY 2010/11 to KD 1040.2 million at the end of FY 2011/12.

During FY 2011/12 CBK continued its efforts toward ensuring the quality of currency notes in circulation, withdrawing and destroying those notes which no longer fulfilled CBK's minimum quality requirements, and fighting crimes of counterfeiting and forgery of banknotes in collaboration with other governmental bodies. In this connection, the value of currency notes withdrawn and destroyed during FY 2011/12 reached KD 140 million.

Furthermore, inter-bank payments transactions, which are carried out by CBK through Kuwait's Automated Settlement System for Inter-Participant Payments (KASSIP), reached KD 155.6 billion during FY 2011/12, against KD 164.9 billion during the previous FY, i.e. a decrease of KD 9.3 billion or 5.6%. With respect to transactions executed within the clearing room at CBK, the total value of these transactions during FY 2011/12 increased to KD 10 billion for 2162.5 thousand transactions (cheques) (i.e. an average value of KD 4656.8), against KD 9 billion for 2075.1 thousand transactions (cheques) (i.e. an average value of KD 4330.3) during FY 2010/11.

CBK executed, during FY 2011/12, 8941 banking transfers for the benefit of ministries and different government institutions totaling KD 1021.5 million, against 9336 banking transfers totaling KD 1130.1 million during the previous fiscal year. Foreign banking transactions carried out by CBK for the benefit of the ministries and other governmental bodies in the form of documentary credits, bills and drafts for collection during FY 2011/12 are presented as follows:

| Particulars | No. | Value (in KD) |
|---|------------|----------------------|
| First- Documentary Credits: | | |
| 1) <u>Opened</u> | <u>47</u> | <u>46,833,393</u> |
| - Local | 2 | 1,960,320 |
| - Foreign | 45 | 44,873,073 |
| 2) <u>Paid</u> | <u>172</u> | <u>56,046,617</u> |
| - Local | 9 | 1,575,145 |
| - Foreign | 163 | 54,471,472 |
| 3) <u>Amended</u> | <u>38</u> | - |
| - Local | 3 | - |
| - Foreign | 35 | - |
| Second- Collection Transactions: | | |
| <u>Bills for Collection</u> | <u>2</u> | <u>133,610</u> |
| a-Incoming | 1 | 115,792 |
| b-Paid-up | 1 | 17,818 |
| Third- Drafts for Collection | 82 | 992,647 |

Fourth- The Labor Force at CBK:

CBK's efforts have continued toward developing the efficiency of its cadres and upgrading their educational and professional skills to keep pace with work developments. CBK has taken a number of measures in this regard during FY 2011/12, including the following:

- 1- During FY 2011/12, 42 Kuwaiti graduates (of whom 33 hold university degrees and 9 hold diploma in applied sciences) were accepted as trainees for positions at CBK. Furthermore, during the same fiscal year, 51 individuals, of whom 49 (96%) Kuwaitis were appointed. Accordingly, by the end of FY 2011/12, the total number of CBK staff reached 965, of which 849 (88%) were Kuwaitis.
- 2- During FY 2011/12 CBK participated in 197 specialized training courses in the State of Kuwait, and sent 974 of its employees to these courses. Furthermore, CBK sent 147 of its employees to 106 training courses abroad, held at the Gulf, Arab and

international levels, in coordination with a number of specialized training bodies in the fields of banking, finance and economics.

- 3- During FY 2011/12 CBK sent 186 of its employees abroad to attend 100 conferences and meetings of relevance to CBK's work, held at the Gulf, Arab and international levels.
- 4- During FY 2011/12 CBK organized several specialized training programs for new Kuwaiti recruits holding university degrees or diplomas in preparation for work in CBK's various departments and offices. In addition, as part of CBK's commitment to training, 12 students of Kuwait University and other applied institutes were trained in CBK's various departments and offices during FY 2011/12.

Fifth- Other Operations and Activities:

During FY 2011/12, CBK carried out various other operations and activities, including the following:

- During FY 2011/12 CBK undertook several technical projects aimed at developing and updating the application and technical systems used to perform different functions. The mentioned fiscal year witnessed the completion of several technical projects, notably the implementation of the "IBAN application in the State of Kuwait" project, "HR System" project, "Sakhr Automated Translation System" project, "Modernization and documentation of training and technical tracks for specialists in information technology functions which are related to technical tasks undertaken by staff in the CBK departments to represent the map of technical training" project, "Auditing program on the quality management system ISO 9001:2008" for the IT department, and "Setting annual targets for the quality of information technology sector in line with the requirements of quality management system ISO 9001:2008" project. Also being implemented are some other projects in this area, the most prominent of which are

“Programme for the development of core banking systems of the Central Bank of Kuwait”; “Electronic banking services project” which aims to provide services to the governmental bodies for the implementation of financial transfers electronically instead of sending transfer samples manually by providing a secure system which gives the governmental bodies the authority to control their accounts with the Central Bank of Kuwait; “Electronic cheque clearing” project which aims to reduce the period of collecting the cheque on the same day or the next instead of the currently 3-4 days; “Cash management system” project; “Follow-up internal and external CBK mail” project; and “Sending SMS to the CBK staff” project. The CBK is also working on an extensive upgrade of its website.

- During FY 2011/12 CBK continued its efforts towards preparing and publishing its various analytical and statistical periodicals in Arabic and English and distribute them locally and internationally to those who are interested in the monetary, banking, financial and economic developments in the State of Kuwait. In addition, CBK continued updating the contents of its website which contains latest available information, data and statistics on the local financial and banking sectors and other sectors of the national economy, in addition to basic information on CBK.
- **CBK’s New Headquarters**

As a part of the projects that the CBK seeks to achieve within its development plan and the annual plan of 2011/12, CBK continued its efforts in overseeing the construction of its new headquarter. In this regard, during FY 2011/12 the work on the following projects have been completed: concrete columns, structural walls, concrete floorings for recurrent floors, firefighting extensions in parking lots, and firefighting work in the basements. Also, the qualification for the appropriate engineering offices for the completion of the interior designs (Bid Package 3), preparing the terms of reference, presenting the consultation works for pricing, completing the nomination of the winning engineering firm, approving the contract from the Department of Fatwa and Legislation, and completing the approval of sub-contractors for a number of items

of the project have been completed. During FY 2011/12, the work continued on the aluminum and glass works in the main Curtain Wall, and on selecting the types of furniture required for the staff floor to include it in the tender documents for the final phase of the project (Bid Package 3).

Sixth:

**The Central Bank of Kuwait
Balance Sheet and Profit & Loss Account
For the Fiscal Year Ended 31 March 2012**

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 2012 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 & Partners

of ERNST & YOUNG

Safi Abdulaziz Al-Mutawa

Accountant & Auditor

License No. 138 A -

KPMG, Safi Al-Mutawa & Partners

of KPMG International

3 May 2012
State of Kuwait

CENTRAL BANK OF KUWAIT

BALANCE SHEET AS ON 31 MARCH 2012**(ALL AMOUNTS IN KD)**

| Assets | Note | 31 March 2012 | 31 March 2011 |
|---|-------------|--------------------------|--------------------------|
| Gold | | 31,736,361 | 31,736,361 |
| Cash, Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions | | 194,831,712 | 187,830,637 |
| Deposits and Investments in Foreign Currency | 3 | 6,563,692,330 | 6,338,961,120 |
| Other Assets | 4 | 26,501,118 | 25,124,786 |
| | | 6,816,761,521 | 6,583,652,904 |
| Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts | 12 | 3,016,582,780 | 3,059,120,047 |

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

CENTRAL BANK OF KUWAIT

BALANCE SHEET AS ON 31 MARCH 2012

(ALL AMOUNTS IN KD)

| Equity and Liabilities | Note | 31 March 2012 | 31 March 2011 |
|---|-------------|--------------------------|--------------------------|
| Capital - Fully Paid Up | | 5,000,000 | 5,000,000 |
| General Reserve Fund | 5 | 295,000,000 | 295,000,000 |
| Special Account | 6 | 280,235,501 | 315,419,063 |
| Profit for the Year | | 46,573,275 | 10,967,536 |
| Currency Issued | 7 | 1,203,578,925 | 1,134,304,529 |
| CBK Bonds Issued | 8 | 1,704,000,000 | 1,575,000,000 |
| Government Accounts | | 515,145,695 | 471,985,309 |
| Accounts of banking system liquidity support | 9 | 1,000,000 | 1,000,000 |
| Local Banks' Current Accounts and Deposits with CBK | 10 | 2,445,739,487 | 2,434,098,859 |
| International Institutions | | 6,378,068 | 25,757,566 |
| Deposits on Documentary Credits | 11 | 177,589,104 | 186,062,953 |
| Other Liabilities | 12 | 136,521,466 | 129,057,089 |
| | | 6,816,761,521 | 6,583,652,904 |
| Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts | 11 | 3,016,582,780 | 3,059,120,047 |

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

CENTRAL BANK OF KUWAIT

**PROFIT & LOSS ACCOUNT FOR
FY ENDED 31 MARCH 2012
(KD)**

| | Note | 13 March 2012 | 13 March 2011 |
|--|------|---------------------|---------------------|
| Interest & Income from Investments | | 94,643,618 | 68,566,290 |
| Interest and Commission Expenses | | <u>(66,300)</u> | <u>(72,783)</u> |
| | | 94,577,318 | 68,493,507 |
| Other Income | | <u>657,914</u> | <u>588,132</u> |
| Operating Income | | 95,235,232 | 69,081,639 |
| Operating Expenses | 13 | <u>(48,661,957)</u> | <u>(58,114,103)</u> |
| Net Profit for the year | | <u>46,573,275</u> | <u>10,967,536</u> |
| Disposed of according to Article 17, of Law No. 32 of 1968 and its amendments, as follows: | | | |
| to the Government Account | 5 | 46,573,275 | 10,967,536 |

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

NOTES TO THE FINANCIAL STATEMENTS

(31 MARCH 2012)

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 currencies, drawing the monetary and credit policies, and the supervision of the banking and financial system, in addition to 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 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) are 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.

(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 converted 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.

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

| | <u>2011/12</u> | <u>2010/11</u> |
|--|-----------------------------|-----------------------------|
| Deposits with Foreign Banks and Institutions | 6,559,526,830 | 6,334,803,870 |
| Central Bank Facilities to the International Bank for Reconstruction and Development | 4,165,500 | 4,157,250 |
| | <u>6,563,692,330</u> | <u>6,338,961,120</u> |

4- Other Assets (KD):

| | <u>2011/12</u> | <u>2010/11</u> |
|---|--------------------------|--------------------------|
| Interest Receivable on Deposits and Other Assets | 9,569,193 | 5,596,414 |
| CBK's Share in the Capital of the Industrial Bank of Kuwait | 2,791,210 | 2,791,210 |
| Prepaid Expenses | 354,283 | 217,396 |
| Advance Payments | 9,229,300 | 11,767,491 |
| Other Debit Balances | 4,557,132 | 4,752,275 |
| | <u>26,501,118</u> | <u>25,124,786</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 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 decision dated on 5 May 2003, and the approval of the Minister of Finance on 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 from the profits since 2007, where the balance of the reserve has reached to KD 295 million.

6- Special Account (KD):

| | <u>2011/12</u> | <u>2010/11</u> |
|---|---------------------------|---------------------------|
| Balance at Beginning of the Year | 315,419,063 | 267,091,074 |
| Net difference in foreign currency, resulting from revaluation of cash assets and liabilities in foreign currencies | <u>35,183,562</u> | <u>48,327,989</u> |
| Balance at the end of the Year | <u>280,235,501</u> | <u>315,419,063</u> |

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

7- Currency Issued (KD):

| | <u>2011/12</u> | <u>2010/11</u> |
|------------------------------------|----------------------|----------------------|
| Net Currency Produced | 1,746,939,450 | 1,816,456,867 |
| Less: Currency in the CBK's Vaults | (543,360,525) | (682,152,338) |
| | <u>1,203,578,925</u> | <u>1,134,304,529</u> |

Net currency produced represents the total of currency printed less currency destroyed.

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 the domestic management field.

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 so as to support the banking system liquidity.

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

| | <u>2011/12</u> | <u>2010/11</u> |
|-----------------------------------|----------------------|----------------------|
| Current Accounts | 296,794,866 | 268,504,339 |
| Deposits | 348,000,000 | 531,000,000 |
| Tawarruq Operations (withdrawals) | 1,800,944,621 | 1,634,594,520 |
| | <u>2,445,739,487</u> | <u>2,434,098,859</u> |

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

| | <u>2011/12</u> | <u>2010/11</u> |
|--|-----------------------------|-----------------------------|
| a- Accounts Managed by the CBK on Behalf of the Government of Kuwait | 2,849,642,614 | 2,876,468,197 |
| b- Contra Accounts: | | |
| Documentary Credits | 163,883,963 | 180,175,169 |
| Memorial Notes and Coins | 2,822,530 | 2,475,384 |
| Collections According to the Law No. 41 of 1993 | 233,673 | 1,297 |
| | <u>166,940,166</u> | <u>182,651,850</u> |
| | <u>3,016,582,780</u> | <u>3,059,120,047</u> |

On 31 March 2012, deposits of KD 177,589,104 (KD 186,062,953: 2011) were held against the documentary credits referred to above.

12- Other Liabilities (KD):

| | <u>2011/12</u> | <u>2010/11</u> |
|--|---------------------------|---------------------------|
| Accrued Expenses | 7,599,507 | 7,654,041 |
| Other Credit Balances | 126,607,814 | 109,613,014 |
| Ministry of Finance, Cost of Supporting Money Market Operations (Note 2-C) | <u>2,206,215</u> | <u>11,790,034</u> |
| | <u>136,521,466</u> | <u>129,057,089</u> |

Other credit balances include provisions for employees' leave pay and 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 remainder of funds transferred from the Ministry of Finance after charging the cost of supporting the money market operations carried out by CBK according to the agreement between CBK and the Ministry of Finance.

13- Operating Expenses (KD):

| | <u>2011/12</u> | <u>2010/11</u> |
|--|--------------------------|--------------------------|
| Employee Costs | 28,144,869 | 21,852,778 |
| Administrative and Computer Operation Costs | 3,718,723 | 2,752,476 |
| Purchases of Furniture, Equipment and Vehicles | 43,701 | 85,189 |
| Production and Shipment of Currency | 934,059 | 4,097,100 |
| Sundry Expenses | 1,927,911 | 2,295,592 |
| Construction Costs | 13,892,694 | 27,030,968 |
| | <u>48,661,957</u> | <u>58,114,103</u> |

14- Promissory Notes Held:

On 31 March 2012, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 483,311,749 (KD 463,314,539: 2011).

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