بنك الكويت المركزي
CENTRAL BANK OF KUWAIT

THE THIRTY - EIGHTH
ANNUAL REPORT

FOR THE FISCAL YEAR 2009/10

The Annual Report of the Central Bank of Kuwait

For the Fiscal Year 2009/10

Introduction:

I am pleased to present to those interested in the Central Bank of Kuwait's business in particular, and the developments of the domestic banking and financial sector in general, the Thirty-Eighth Annual Report of the Central Bank of Kuwait (CBK) for the Fiscal Year (FY) 2009/10, which includes the auditors' report about the financial position of the CBK as of 31st of March 2010, and its business results and activities as reflected by the profits and losses account for the mentioned FY. 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 2009/10, 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 FY including the most important instructions, circulars, and supervisory regulations issued by CBK to the banking and financial units subject to its supervision.

In the beginning, it is worth to mention the exacerbated impact of the global financial and economic crisis during the last quarter of 2008 and its various reflections which continued to influence the domestic monetary and banking conditions during FY 2009/10, along with the decline in oil prices in the world market and notable fluctuations in the indicators of global and regional financial markets. Thus, CBK's efforts in areas related to drawing and implementation of monetary policy, oversight, and supervision of local banking and financial system units during FY 2009/10 focused on strengthening local banking and financial units and reinforcing their ability to face and overcome the negative impact of this crisis on the one hand, and creating appropriate atmosphere for local banking and financial system units to resume their role in boosting local economic activity on the other hand. Within these efforts, reference could be made to the incentives provided and steps taken by CBK during

FY 2009/10 which included three cuts in the discount rate totaling 125 basis points to reach 2.5% at the end of FY 2009/10, against 3.75% at the end of FY 2008/09. And in view of the challenges of the global financial and economic crisis the CBK, like supervisory authorities in many other countries, continued during FY 2009/10 its intensified efforts in developing its supervision and oversight policy.

In particular, CBK intensified its efforts during FY 2008/09 to contribute to the consolidation of financial stability in the country through enhancing the soundness and safety of financial positions of the local banking and financial system units, and increasing the efficiency and capacity of these units to deal with the latest local and global developments. These efforts included off-site follow-up and on-site inspection, more precautionary and prudential measures taken to verify the application of sound professional practices and the adherence to policies, programs and supervisory instructions, as well as continuous development of these supervisory policies and programs to keep pace with best international practices in this field.

During FY 2009/10 CBK made effective modifications in the supervisory and oversight systems of local banking and financial system units subject to its supervision, notably the consolidation of banking regulations especially the ones related to risk management and stress-testing, and the amendments relating to the second part of the Basel II Capital Adequacy standard related to the supervisory review process in order to emphasize the importance of internal evaluation of capital adequacy (ICAAP) by banks in facing different risks including credit risks, liquidity risks, market risks, and others. In addition, the emphasis on doing regular and periodic stress-testing in order to assess local banks' ability in coping with exposures under stress situations.

Within CBK's efforts to develop programs and systems related to information technology, and introduce new systems to keep pace with technical developments in order to increase efficiency in its various departments and offices, CBK has implemented many projects in this area during FY 2009/10. The most important of these projects that is being executed is a system of consulting services for assessing CBK's internal and external networks which ensures the absence of any security gaps, the integrated automated system of interbank transfers, the protection and prevention system of CBK's network against all break-ins, the updating of CBK's external network systems, the e-mail archiving system, the updating of CBK portal, and others. Moreover, starting of implementation of new systems and information programs, notably, the single sign-on system for all the systems, including the cheque reading system, the electronic banking services system, the anti-money laundering system within swift operations, and others.

FY 2009/10 witnessed CBK's continuous efforts towards development of its manpower to upgrade their professional capabilities so as to enhance CBK capacity to carry out its tasks. In addition, as part of its keenness to provide reliable information and accurate data to the public, CBK has continued its efforts during this FY to prepare and issue its periodic statistical bulletins and various reports in both Arabic and English, and update the contents of its home page on the world-wide web.

In closing, we pray to the Almighty to grant success to our efforts and endeavors for achieving the good of our beloved homeland, its prosperity and progress under the patronage of His Highness the Amir, Sheikh Sabah Al-Ahmed 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 Naser Mohammed Al-Ahmed Al-Sabah, may God guide him.

Salem Abdulaziz Al-Sabah

Governor of the Central Bank of Kuwait

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

This section of the Report highlights notable developments in the country's major monetary and banking aggregates and indicators during FY 2009/10 as reflected by data related to money supply, interest rates, exchange rate of KD against other 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 implementation of monetary policy, supervision, and oversight of banking and financial system units.

Worth noting is that the impact and reflections of the global financial and economic crisis continued to influence the domestic economic, monetary, and banking positions during FY 2009/10, which led CBK to consolidate its treatments and incentive measures taken with the emergence of signs of this crisis during the third quarter of FY 2008/09, aimed at increasing local banking and financial system units' ability to address the excretions of this crisis on the one hand, and creating appropriate atmosphere for local banking and financial system units to resume their role in boosting local economic activity on the other hand.

Consequently, data related to the country's major monetary and banking aggregates and indicators during FY 2009/10 indicate a growth of these aggregates and indicators, albeit at lower rates, compared with previous fiscal years (2005/06–2007/08), as follows:

1- Monetary Developments:

A-Money Supply:

Money Supply in its broad definition (M2) rose to reach KD 25637.9 million at end of FY 2009/10, against KD 24862 million at end of FY 2008/09, i.e. an increase by KD 775.9 million or 3.1%, compared to an increase of KD 4491 million or 22% during the previous FY. Despite the continuation of the impact of the global financial and economic crisis during FY 2009/10, this rise in money supply in its broad definition (M2) came as a result of CBK's intensive efforts in mitigating the effects of this crisis on domestic liquidity through providing the funding requirements for various domestic economic sectors. The rise in money supply came as a result of the increase in Money (the narrow definition of Money

Supply M1) by KD 553.2 million or 11.8% (from KD 4695.1 million to KD 5248.3 million), and Quasi-money by KD 222.7 million or 1.1% (from KD 20167 million to KD 20389.6 million).

Money Supply Developments
(KD Million)

End of Period	2007/08	2008/09	2009/10	Change in 2009/10 over 2008/09	
				Value	%
Money Supply (M2)	**20371.0**	**24862.0**	**25637.9**	**775.9**	**3.1**
Money (M1) of which:	4856.3	4695.1	5248.3	553.2	11.8
Sight Deposits	4190.5	3952.6	4445.7	493.1	12.5
Quasi Money	15514.7	20167.0	20389.6	222.7	1.1
Deposits in KD	13921.1	17085.3	17832.4	747.1	4.4
Deposits in FC	1593.6	3081.7	2557.0	-524.5	-17.0

Source: Central Bank of Kuwait.

In the monetary survey of CBK and local banks[1], the factors affecting changes in Money Supply (M2) during FY 2009/10, the mentioned growth in Money Supply in its broad definition (M2) came as a result of the increase in both net domestic assets of the mentioned institutions by KD 606.6 million, and net foreign assets by KD 169.3 million. The mentioned rise in net domestic assets was mainly contributed by the increase of local banks' claims on the private sector by KD 1235.9 million or 4.8% as a reflection of local banks' continuous provision of bank credit to domestic economic sectors, which contributed towards mitigating the negative effects of the global financial and economic crisis on the activities of these sectors.

During FY 2009/10, the rise in net foreign assets (KD 169.3 million) was due to the increase in both net foreign assets of local banks by KD 113.7 million or 2.6%, and net foreign assets of CBK by KD 55.6 million or 1.1%.

[1]All commercial banks, branches of foreign banks, specialized banks (the Industrial Bank of Kuwait), in addition to banks that operate in accordance with the provisions of Islamic Sharia,.

B- Domestic Interest Rates:

During FY 2009/10, CBK made three cuts in the discount rate by 125 basis points to reach 2.5% at the end of FY 2009/10, against 3.75% at the end of FY 2008/09. CBK made a cut in the discount rate by 25 basis points to reach 3.50% as of 13th of April 2009, a second cut in the discount rate by 50 basis points to reach 3% as of 14th of May 2009, followed by a third cut by 50 basis points (from 3% to 2.5%) as of 8th of February 2010. This reduction in the discount rate came within CBK's continuous follow-up of the local economic, monetary, and banking developments on the one hand, and the developments of interest rates on major foreign currencies on the other hand. Within this context, decisions to cut discount rate came as a continuation of CBK efforts to strengthen the domestic economy and maintain the attractiveness and competitiveness of KD as a store of domestic savings in light of the easing of inflationary pressure in the national economy, and the need for reinforcement of supportive atmosphere to boost growth in domestic economic sectors through reducing the cost of bank credit.

Worth noting is that the discount rate is considered a pivotal rate to which are linked, within specified margins, maximum limits of interest rates on KD-lending transactions at the local banking and financial system units. Accordingly, reducing discount rate at CBK leads to a reduction of the maximum limits of interest rates on KD-lending transactions at the local banking and financial system units by the same amount of that reduction.

As for interest rates on both customers' KD time deposits and customers' US dollar time deposits with local banks, interest rates on customers' KD time deposits with local banks during FY 2009/10 witnessed a decline compared with the pervious FY. Specifically, interest rates on customers' KD time deposits with local banks on one-month maturity and three-month maturity decreased to 1.351%, and 1.506% respectively, against 2.832% and 2.993% for the two mentioned terms respectively during the previous FY.

On the other hand, interest rates on customers' US dollar time deposits with local banks on one-month maturity and three-month maturity witnessed a decline during FY 2009/10 to reach 0.306% and 0.427% respectively, against 1.637% and 1.911% for the two mentioned terms respectively during the previous FY. In the light of that, the margin between the average interest rates on KD and US dollar deposits for both one-month maturity and three-month maturity during FY 2009/10 reached 1.045% and 1.080%, respectively, in favor of KD deposits. In the same direction, the average interest rates on local interbank KD deposits on one-month maturity and three-month maturity witnessed a decline during FY 2009/10 to reach 1.022% and 1.234% respectively, against 2.536% and 2.792% for the two mentioned terms respectively during the previous FY. The average interest rates on public debt instruments witnessed a decline during FY 2009/10, as the average interest rate on one-year treasury bonds recorded a decrease from 2.035% during FY 2008/09 to 1.662% during FY 2009/10.

C- The KD Exchange Rate:

During FY 2009/10, CBK continued its efforts to maintain the relative stability of the KD exchange rate against other major currencies, in light of KD exchange rate policy that was in effect since 20 May 2007, based on 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. This system of currency basket offers relative flexibility in drawing and executing monetary policy which aims to maintain the purchasing power of the national currency and consolidate the foundations of monetary stability in the country, so as to limit the impact of sharp fluctuations that may sometimes occur in the exchange rates of major currencies, and thus curb the imported inflationary pressures associated with exchange rate developments of world currencies.

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

Item	April 2008 - March 2009					April 2009 - March 2010				
	Highest Price	Lowest Price	Change (%)	End of Period	Average	Highest Price	Lowest Price	Change (%)	End of Period	Average
Kuwaiti Dinar (fils)	293.85	264.75	29.10	191.00	288.30	292.50	284.40	8.10	288.75	287.62
Pound Sterling	0.7321	0.4992	0.2329	0.6981	0.6959	0.7034	0.5890	0.1144	0.6709	0.6387
Euro	0.8023	0.6254	0.7169	0.7519	0.7646	0.7735	0.6626	0.1109	0.7441	0.7200
Franc	1.3327	0.9951	0.3376	1.1442	1.1456	1.1688	0.9988	0.1700	1.0679	1.0553
Japanese Yen	110.505	87.685	22.820	97.780	93.140	100.815	86.995	13.820	92.775	90.691

In this regard, the average exchange rate of the US dollar against KD reached 287.52 fils (per US dollar) during FY 2009/10, against 272.92 fils during the previous FY, i.e. an increase by 14.6 fils or 5.3%. The difference between the highest (292.50 fils) and the lowest (284.40 fils) exchange rates of the US dollar against KD during FY 2009/10 was 2.8%, whereas the exchange rates of the US dollar fluctuated more against other major currencies during FY 2009/10. The difference between the highest and the lowest exchange rates of the US Dollar was 19.4% against the Pound Sterling, 17% against the Swiss Franc, 16.7% against the Euro, and 15.9% against the Japanese Yen.

D- Banking Credit:

Balances of the utilized cash portion of credit facilities extended by local banks to the various economic sectors during FY 2009/10 witnessed a rise of KD 943 million or 3.9% to reach KD 25129.0 million at end of the mentioned FY, compared with KD 24186 million at end of the previous FY. This rise in credit facilities was an outcome of the rise in credit facilities to the Real-Estate sector (by KD 416.2 million or 6.8%), the Personal Facilities sector (by KD 457.8 million or 5.8%), the Non-bank Financial Institutions sector (by KD 132 million or 4.8%), and the Crude oil and gas sector (by KD 72.5 million or 46.2%). On the other side, the balances of the utilized cash portion of credit facilities extended by local banks to the Trade sector (by KD 69.9 million or 3.0%), and the Construction sector (by KD 9.2 million or 0.5%) during FY 2009/10. Regarding the KD credit facility agreements concluded with residents during FY 2009/10, which reflect the change in the limits of existing credit facilities and facilities extended to new clients, the data indicate that the value of these facilities decreased by KD 257.8 million or 2.5% to KD 10636.3 million during FY 2009/10, against KD 10378.6 million during the previous FY.

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

End of Period	2007/08	2007/08 (1)	2007/08 (2)	Change in (3) over (2)	
				Value	(%)
Total utilized cash portion of credit facilities, of which:	**21359.5**	**24186.0**	**25129.0**	**943.0**	**3.9**
Trade	1909.8	2321.9	225.0	69.3	3.0
Industry	1160.3	1493.8	1490.5	-3.3	-0.2
Construction	1507.3	1694.6	1685.3	-9.2	-0.5
Non-bank	2681.3	2749.3	2881.2	132.0	4.8
Personal Facilities	7211.8	7960.1	8418.0	457.8	5.7
Real-Estate	5442.6	6146.4	6563.0	416.2	6.8

Source: Central Bank of Kuwait.

E- Domestic Liquidity:

CBK continued to regulate the levels of domestic liquidity during FY 2009/10, in line with local economic, monetary, and banking developments. CBK uses different monetary instruments to regulate those 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. In this regard, balances of time deposits of local banks with CBK, within the scheme of accepting time deposits from local banks witnessed a noticeable increase during FY 2009/10 by KD 706.5 million or 134% to KD 1233.9 million at end of the mentioned FY, compared with KD 527.4 million at end of the previous FY.

Moreover, CBK made 29 issues of its bonds with a total nominal value of KD 2821.5 million during FY 2009/10, and during this FY, 26 previous issues of these bonds with a total nominal value of KD 1930.5 million matured. As a result, the outstanding balance of CBK bonds rose by KD 891 million or 252.8% to KD 1243.5 million at end of FY 2009/10, compared with KD 352.5 million at end of the previous FY.

F- Issuance of Public Debt Instruments:

Public debt instruments (such as Kuwaiti Treasury Bonds and Bills), managed by CBK on behalf of the Ministry of Finance, are considered tools used by CBK to regulate levels of domestic liquidity. In this regard, CBK made 10 issues of Treasury Bills during FY 2009/10 with a total nominal value of KD 700 million, and 8 previous issues of Treasury Bills with a total nominal value of KD 550 million matured during that period. In addition, CBK made 17 issues of Treasury Bonds (one-year maturity) during FY 2009/10 with a total nominal value of KD 1594 million, while 20 previous issues of Treasury Bonds with a total nominal value of KD 1841 million matured during FY 2009/10. Accordingly, the total outstanding balance of public debt instruments (Treasury Bonds and Bills) declined by KD 97 million or 4.6% to KD 2033 million at end of FY 2009/10, against KD 2130 million at end of the previous FY. At the end of FY 2009/10, the outstanding balance of public debt instruments among institutions holding them were distributed between local banks' holdings which totaled KD 1863.9 million (91.7%), and other institutions' holdings which amounted to KD 169.1 million (8.3%).

2- Banking Developments:

A- The Aggregate Balance Sheet of Local Banks:

FY 2009/10 witnessed a noticeable slowdown in the growth rate of the aggregate balance sheet of local banks compared with the realized growth rate in previous fiscal years (2002/03–2007/08), reflecting one aspect of the implications of the global financial and economic crisis which was represented in creating a state of caution in the units of this sector regarding expansion of credit. In this area, data available indicate a rise in the aggregate balance sheet of local banks to reach KD 4058.7 million at end of FY 2009/10, against KD 39518.1 million at end of FY 2008/09, i.e. a rise by KD 1066.6 million or 2.7%. This rise in the aggregate balance sheet of local banks came as an outcome of various developments in the components of this balance on both sides (Assets and Liabilities), the most notable of which are highlighted as follows:

On the Assets Side:

- The balance of local banks' claims on the private sector increased by the equivalent of KD 1235.9 million or 4.8% to reach KD 27101.3 million at end of FY 2009/10, against KD 25865.4 million at end of FY 2008/09. This increase resulted from a rise in both the balances of utilized cash portion of credit facilities extended by local banks to domestic sectors by KD 943 million or 3.9%, as mentioned previously, to reach KD 25129 million at end of FY 2009/10, against KD 24186 million at end of previous FY on the one hand; and the balances of other local investments by KD 292.9 million or 17.4% to reach KD 1972.3 million at end of FY 2009/10, against KD 1679.5 million at end of previous FY on the other hand.

- The balance of local banks' claims on CBK (accounts, deposits and CBK Bonds) increased during FY 2009/10 by KD 1278.2 million or 86.3% to reach KD 2759.9 million at end of FY 2009/10, against KD 1481.6 million at end of the previous FY. This rise resulted from an increase in both the balance of local banks' holdings of CBK Bonds by KD 890.7 million or 252.5% (from KD 352.8 million to KD 1243.5 million), the balance of local banks' sight deposits with CBK by KD 706.5 million or 134% (from KD 527.4 million to KD 1233.9 million) on the one hand, and the decline in the balance of local banks' sight deposits with CBK by KD 319.1 million (from KD 601.5 million to KD 282.4 million for FY 2008/09 and FY 2009/10 respectively).

- The balance of foreign assets of local banks decreased by the equivalent of KD 1157.6 million or 13.7% to reach KD 7263.1 million at end FY 2009/10, against KD 8420.7 million at end of the previous FY. This decrease resulted from a slowdown in balances of local banks' deposits with foreign banks by KD 1347.4 million or 30.3% on the one hand; and the rise in local banks' foreign investments by KD 212.6 million or 10.6%, balances of the utilized cash portion of credit facilities extended to non-residents by KD 157.3 million or 14.7%, and other foreign assets by KD 25.2 million or 6.6% on the other hand.

- The balances of local banks' claims on the government decreased by KD 143.6 million or 7.2% to reach KD 1863.9 million at the end of FY 2009/10, against

KD 2007.5 million at end of the previous FY. This decline is totally contributed by the decrease in the balance of local banks' holdings of Public Debt Instruments by KD 143.6 million or 7.2% to reach KD 1863.9 million at end of FY 2009/10, against KD 2007.5 million at end of the previous FY.

Aggregate Balance Sheet of Local Banks
(KD Million)

Items	Balances at end of the year		
	2007/08	**2008/09**	**2009/10**
Assets:			
Cash	98.1	119.2	140.4
Claims on CBK	1778.6	1481.6	2759.8
Balances (demand deposits) with CBK	573.6	601.5	282.4
CBK Bonds	546.6	352.8	1243.5
Time Deposits with CBK	658.5	527.4	1233.9
Local Interbank Deposits	1897.5	653.2	598.7
Claims On Government	1793.6	2007.5	1863.9
Treasury Bonds	1793.6	2007.5	1713.9
Treasury Bills	-	-	150.0
Claims on Private Sector	23382.6	25865.4	27101.3
Credit Facilities to Residents	21359.5	24186.0	25129
Other Domestic Investments	2023.1	1679.5	1972.3
Foreign Assets	7439.2	8420.7	7263.1
Deposits with Foreign Banks	4439.7	4967.1	3414.5
Credit Facilities to Non-Residents	1109.6	1068.8	1226.1
Foreign Investments	1563.5	2002.8	2215.3
Other Foreign Assets	326.3	382.0	407.2
Other Assets	844.8	970.6	857.5
Total Assets=liabilities	**37234.5**	**39518.1**	**40584.7**
Liabilities:			
Private Sector Deposits	19727.7	24119.5	24835.3
KD Deposits	18111.6	21037.8	22278.1
Foreign Currency Deposits	1616.1	3081.7	2557.2
Government Deposits	1922.7	3171.1	3709.4
Local Interbank Deposits	1836.8	593.2	699.8
Shareholders' Equity	4752.7	4790.9	5192.6
Foreign Liabilities	6605.8	4062.5	2791.3
Non-Resident Bank Deposits	3037.2	2259.6	1921.3
Other Non-Resident Deposits	3434.0	1720.4	844.0
Other Foreign Deposits	134.7	82.5	26.0
Other Liabilities	2388.6	2781.0	3356.2
Contra Accounts:	8903.8	8903.3	7121.5
Bank Guarantees	5418.4	6234.0	5841.7
Documentary Credits	2702.0	1643.2	944.0
Bank Acceptances	783.6	1026.1	335.8

On the Liabilities Side:

- The balances of resident private sector deposits with local banks increased by KD 715.8 million or 3% to reach KD 24835.3 million at end of FY 2009/10, against KD 24119.5 million at end of the previous FY. The mentioned rise came basically as a result of the increase in the balances of KD deposits by KD 774.8 million or 4.3% to reach KD 22278.1 million at end of FY 2009/10, against KD 21037.8 million at end of the previous FY. The balances of foreign currency deposits recorded a decline by KD 524.5 million or 17% to reach KD 2557.2 million at end of FY 2009/10, against KD 3081.7 million at end of the previous FY.

- The balances of government deposits with local banks increased by KD 538.3 million or 17% to reach KD 3709.4 million at end of FY 2009/10, against KD 3171.1 million at end of the previous FY.

- The balances of shareholders' equity with local banks increased by KD 401.7 million or 8.4% to reach KD 5192.6 million at end of FY 2009/10, against KD 4790.9 million at end of the previous FY.

- The balances of foreign liabilities of local banks declined by KD 1271.2 million or 31.1% to reach KD 2791.3 million at end of FY 2009/10, against KD 4062.5 million at end of the previous FY. This decrease included the balances of non-bank foreign entities' deposits by KD 876.4 million or 50.9%, foreign banks' deposits with local banks by KD 338.3 million or 15%, and other foreign liabilities by KD 56.5 million or 68.5%.

B- The Aggregate Balance Sheet of Investment Companies:

Available data indicate an accelerated decline in the aggregate balance sheet of local investment companies (traditional and Islamic) at end of FY 2009/10 to reach KD 14778 million (for 100 companies), against KD 16468.2 million at end of FY 2008/09 (for 101 companies), i.e. a decline of KD 1690.4 million or 10.3%, after a decrease of KD 550.8

million or 3.2% during the previous FY. This decline was an outcome of various developments on both sides (Assets and Liabilities) within the aggregate balance sheet of local investment companies which can be summarized as follows:

On the Assets Side:

- The balance of cash and balances with local banks and other financial institutions decreased by KD 284.1 million or 30.1% to reach KD 658.1 million at end of FY 2009/10, against KD 942.2 million at end of previous FY. The mentioned decline reflects in its largest portion (96.3%) the decrease in the balances of local investment companies' accounts with banks by KD 273.6 million or 29.8% which reached KD 645.7 million at end of FY 2009/10, against KD 919.3 million at end of previous FY.

- The balances of domestic investments declined by KD 671.1 million or 14.1% to reach KD 4088.6 million at end of FY 2009/10, against KD 4759.7 million at end of previous FY. This decline resulted from a decrease in both the balances of domestic financial investments by KD 650.5 million or 15.2%, and the balances of domestic non-financial investments by KD 20.6 million or 15.2%.

Aggregate Balance Sheet of Local Investment Companies

(KD Million)

Items	Balances at end of the year	
	2008/09	2009/10
Assets:		
Cash and Balances with Banks and other financial institutions	941.9	658.1
Customer Financing	1817.7	1350.7
Loans and Discounts to Residents (conventional companies)	948.1	722.5
Customers Financing by Islamic Financial Instruments	869.5	628.2
Local Investments	4759.7	4088.6
Financial Investments	4269.8	3619.3
Non-financial Investments	489.9	469.4
Foreign Assets	6554.1	6533.9
Other Assets	2394.8	2146.7
Assets=Liabilities	**16468.2**	**14778.0**
Liabilities:		
Capital and Reserve	5795.4	5666.0
Financing from Residents	4108.6	3643.8
Bonds, of which Financing Sukuks	888.5	669.2
Foreign Liabilities	3440.1	3350.2
Other Liabilities	2235.7	1448.8
Number of Companies	101	100

- The balances of customer financing decreased by KD 467 million or 25.7% to reach KD 1350.7 million at end of FY 2009/10, against KD 1817.7 million at end of previous FY. This decline included the balances of financing through Islamic financial instruments by KD 241.3 million or 27.8%, and the balances of loans and advances of conventional companies by KD 225.7 million or 23.8%.

- The balances of other assets decreased by KD 248.1 million or 10.3% to reach KD 2146.7 million at end of FY 2009/10, against KD 2394.8 million at end of previous FY.

- The balance of foreign assets recorded a decline by KD 20.2 million or 0.3% to reach the equivalent of KD 6533.9 million at end of FY 2009/10, against the equivalent of KD 6554.1 million at end of the previous FY. This decline was an outcome of the decrease in balances of foreign investments (financial and non-financial) by the equivalent of KD 279.8 million or 5%, and balances of credit facilities extended to non-resident by the equivalent of KD 24.6 million or 18.9% on the one hand; and the rise in cash and balances with foreign banks by the equivalent of KD 175.6 million or 56.3%, and other foreign assets by KD 108.5 million or 20.2%, on the other hand.

On the Liabilities Side:

- The balance of financing from residents (banking and financial system units and other institutions) declined by KD 464.8 million or 11.3% to reach KD 3643.8 million at end of FY 2009/10, against KD 4108.6 million at end of FY 2008/09. This decline resulted from the decrease in the balance of financing from investment companies by KD 152.1 million or 28%, the balance of financing from other institutions (non-banking and non-financial) by KD 273.6 million or 36.3%, and the balance of financing from local banks by KD 39.1 million or 1.4%.

- The balance of foreign liabilities decreased by KD 89.8 million or 2.6% to reach KD 3350.2 million at end of FY 2009/10, against KD 3440.1 million at end of previous FY.

- The balance of shareholders' equity declined by KD 129.4 million or 2.2% to reach KD 5666 million at end of FY 2009/10, against KD 5795.4 million at end of previous FY.

- The balance of other liabilities increased by KD 786.9 million or 35.7% to reach KD 1448.8 million at end of FY 2009/10, against KD 2235.7 million at end of previous FY.

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

During FY 2009/10, CBK intensified its efforts which aimed at developing its supervision and oversight over the banking and financial system units through off-site monitoring and on-site inspections of these units. The persistent CBK efforts strive to enhance the strength and safety of the financial positions of those units according to international oversight standards, and to increase the ability of this sector to face the implications of the global financial and economic crisis so as to resume its central role in strengthening domestic economic activity. These units (270 units) include, as of 31/3/2010, local commercial, Islamic and specialized banks (20 banks), investment companies (100 companies, 54 of them operating in accordance with the provisions of Islamic Sharia), exchange companies (38 companies), and local investment funds (112 funds, 54 of them operating in accordance with the provisions of Islamic Sharia).

During FY 2009/10, CBK issued a number of supervisory measures and instructions to the banking and financial units under its supervision to strengthen banking regulations, particularly the ones concerning risk management and procedures of stress-testing, and applicable parts of the second part of the Basel II Capital Adequacy standard related to the supervisory review process. In this regard, CBK has amended the second part of the Basel II capital adequacy requirements related to the supervisory review process, in order to stress the importance of internal evaluation of capital adequacy (ICAAP) by banks, which states that in addition to banks' commitment to the ratio of capital adequacy against the risks of the first part of Basel II Capital Adequacy standard which are credit risks, market risks and operating risks, banks should also make sure that their capital adequacy is enough to face banking risks in general, and not only risks under the first part, in addition to performing stress-testing and that is to plan a work strategy which represents part of their risk management. Worth noting is that CBK has issued instructions on 15/6/2009 to Islamic banks regarding the application of Basel II Capital Adequacy instead of previous instructions, and this should be effective since the end of June 2009. These instructions take into account the nature of risks regarding Islamic banking in light of the instructions issued by Islamic Finance Services Board.

In the context of CBK policy regarding enhancement of transparency keeping pace with international standards, and with the instructions issued regarding Basel II Capital Adequacy standards, CBK issued a circular that focuses on the third part of these standards “Disclosure and Transparency” which sets the appropriate mechanism of disclosure in financial institutions, and banks’ adoption of a disclosure policy which is approved by their Board of Directors. In addition, CBK has issued a number of instructions which focus on strengthening its supervision and the importance of providing accurate information on financial obligations and other data from banks and investment companies which CBK is keen to obtain.

Moreover, regarding the assurance of the soundness of banks’ financial positions and their resistance to financial derivatives’ exposure, CBK demanded from banks on 15/11/2009 to continue providing it with auditors’ reports to perform a special scrutiny on banks’ activities in dealing with financial derivatives including assessments of inner oversight controls, verification of the adequacy and effectiveness of these controls, and risk limits which banks may be exposed to.

In addition, CBK demanded from banks on 11/10/2009 to provide it with their periodic work plans and strategies and what problems they face, particularly in the light of the impact of the global financial and economic crisis on money markets, cash, and economies of various countries. These instructions issued by CBK aim to broaden banks’ perspective of the developments in domestic, regional, and international situations that surround them, and to determine the outlook for dealing with economic and financial variables. Also, by these reports, CBK can assess banks’ efficiency in managing banking risks in light of their outlook regarding developing various work systems according to best banking practices.

Third- Major Banking Operations Performed by CBK:

FY 2009/10 witnessed a rise in banking activities related to currency issued, whereby the balance of banknotes and coins issued by CBK increased during this FY compared with the previous FY. Data indicate that the average of currency issued average reached KD 879 million during FY 2009/10, compared with KD 812.1 million during the previous FY, i.e. a rise of KD 66.9 million or 8.2%. The highest balance of currency issued during FY 2009/10 reached KD 1017.7 million on 17th of September 2009, while the lowest balance reached KD 809.2 million on 17th of August 2009. In the same direction, the value of currency in circulation (expressed as currency issued minus cash held by local banks) increased by KD 60.1 million or 8.1%, from KD 742.5 million at end of FY 2008/09 to KD 802.6 million at end of FY 2009/10.

During FY 2009/10, CBK continued its efforts toward ensuring the quality of currency notes in circulation, withdrawing and destroying those notes which no longer fulfill CBK’s minimum quality requirements, and fighting crimes of counterfeiting and forgery of banknotes in collaboration with other government bodies. In this connection, the value of withdrawn and destroyed currency notes during FY 2009/10 reached KD 233.2 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 153.7 billion during FY 2009/10, against KD 240.2 billion during the previous FY, i.e. a decrease of KD 86.5 billion or 36%. With respect to transactions executed within the clearing room at CBK, the total value of these transactions during FY 2009/10 decreased to KD 8.6 billion for 2039 thousand transactions (cheques) (i.e. an average value of KD 3518), against KD 10.6 billion for 2192 thousand transactions (cheques) (i.e. an average value of KD 3853.5) during FY 2008/09.

CBK executed, during FY 2009/10, 9046 banking transfers for the benefit of ministries and different state institutions totaling KD 1488.7 million, against 9753 banking transfers totaling KD 976.9 million during the previous FY. As for foreign banking transactions carried out by CBK for the benefit of the ministries and other government bodies in the form of documentary credits, bills and drafts for collection during FY 2009/10, these are presented as follows:

Particulars	No.	Value (in KD)
First- Documentary Credits:		
1) Opened	41	178,778,704
- Local	3	4,026,381
- Foreign	38	174,752,323
2) Paid	239	97,998,627
- Local	9	3,553,604
- Foreign	230	94,443,023
3) Amended	54	
- Local	3	
- Foreign	51	
Second- Collection Transactions:		
Bills for Collection	18	50,467
a-Incoming	9	24,491
b-Paid-up	9	25,976
Third- Drafts for Collection	133	561,770

Fourth- The Labor Force at CBK:

CBK efforts have continued toward developing the efficiency of its cadres and upgrading their educational levels and professional skills to keep pace with work developments, supervision, and oversight methods according to best international practices. CBK has taken a number of measures in this regard during FY 2009/10, including the following:

1- During FY 2009/10, 56 Kuwaiti graduates (of which 39 hold university degrees and 17 hold diploma in applied sciences) were appointed as trainees for positions at CBK. Furthermore, during the same FY, 133 individuals, of which 111 (83.5%) Kuwaitis were recruited. Accordingly, by end of FY 2009/10, the total number of CBK staff reached 911 employees, of which 678 (or 85.6%) were Kuwaitis.

2- During FY 2009/10, CBK participated in 187 specialized training courses in the State of Kuwait, and sent 1075 of its employees to these courses. Furthermore, CBK sent 135 of its employees to 94 training courses abroad, held at the Gulf, Arab and international countries, in coordination with a number of specialized training bodies in the fields of banking, finance and economics.

3- During FY 2009/10, CBK sent 124 of its employees abroad to attend 70 conferences and meetings of relevance to CBK's work, held at the Gulf, Arab and international levels. Also, during the mentioned FY 4 of CBK's employees were sent to attend 2 conferences and meetings in the State of Kuwait.

4- During FY 2009/10, CBK organized several specialized training programs for new Kuwaiti graduates (holders of university degrees or diplomas) to prepare and qualify them for work in CBK's various departments and offices. In addition, and as part of CBK's commitment to training universities' and institutes' students, 16 students of Kuwaiti University and other applied institutes were trained in CBK's various departments and offices.

5- During FY 2009/10, CBK updated the acceptance tests for vacant jobs, amended the organizational structure of a number of departments, and established the regulations of work contracts with Kuwaitis and non-Kuwaitis, CBK also established the regulations of part-time scholarships.

Fifth- Other Operations and Activities:

During FY 2008/09, CBK carried out various other operations and activities, including the following:

- During FY 2009/10, CBK undertook several technical projects aimed at developing and updating the application and technical systems used to perform different functions. The most important of these projects that is being executed is a "System of consulting services for assessing CBK's internal and external networks and some other sensitive systems", a "Protection and prevention system of CBK's network against all breakt-ins" project, an "E-mail archiving system" project, an "updating of CBK's external network systems" project, "CBK portal' project, "The single sign-on system for all CBK's systems", and others. Also, work is being done on some of this area's projects, most noticeable of which is the "Electronic banking services system" which aims at automating procedures of payments and remittances among government bodies and agencies subject to the supervision of CBK (investment and exchange companies) on the one hand, and local banks on the other hand. Also under development are giving the relevant agencies the ability of immediate query and control of their accounts with CBK, and a "cheque reading system" to automate the procedures of reading CBK's data cheques to provide a better service to customers in terms of accuracy and speed. In addition to conducting tests on the "Integrated automated system of interbank transfers", the "Anti-money laundering system within Swift operations" aims at examining CBK's transfers to external bodies through international transfer system (Swift) and verifying the legitimacy of the beneficiary agency through ensuring its absence from the black list, and preparing and operating a parallel/alternative site to link the financial/government system to CBK's external network to reduce the chances of CBK's external network outages, and operating the parallel procedure of developed systems of CBK's external network.

- During FY 2008/09, CBK continued preparing and publishing its various periodicals (monthly and quarterly). Also, CBK continued to publish its Economic and Annual Reports in both Arabic and English, and distribute them locally and internationally to those who are interested in monetary, banking, financial and economic developments in the State of Kuwait. In addition CBK continued updating the contents of its internet homepage which contains latest available information, data and statistics on local financial and banking sector and other sectors of the national economy, as well as some basic information on CBK.

Sixth:

The Central Bank of Kuwait

Balance Sheet and Profit & Loss Account

For the Fiscal Year Ended 31 March 2010

AUDITORS REPORT

We have examined the financial statements of the Central Bank of Kuwait (CBK). Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary. We obtained all the information and explanations, which we deemed necessary for the purpose of our examination.

In our opinion, the financial statements give a true and fair view of the real financial position of CBK on 31 March 2010 and of the results of its operations for the year then ended, in compliance with Law No. 32 of 1968 and amendments thereof.

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

Bader Abdullah Al-Wazan	**Waleed Abdullah Al-Oseimi**
Register of Accountants & Auditors	Register of Accountants & Auditors
License No. 62 A -	License No. 68 A -
Bader & Partners	Al-Aiban, Al-Osaimi & Partners
of PRICE WATERHOUSE COOPERS	of ERNST & YOUNG

28 April 2009
State of Kuwait

BALANCE SHEET AS ON

Assets	Note	31 March 2010	31 March 2009
Gold		31,736,361	31,736,332
Cash, Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions		209,323,877	609,721,724
Deposits and Investments in Foreign Currency	3	4,776,702,750	4,354,062,180
Other Assets	4	27,850,902	31,635,800
		5,045,613,890	**5,027,156,036**
Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts	12	**2,934,601,874**	**2,404,154,633**

31 MARCH 2010 (KD)

Equity and Liabilities	Note	31 March 2010	31 March 2009
Capital - Fully Paid Up		5,000,000	5,000,000
General Reserve Fund	5	295,000,000	295,000,000
Special Account	6	267,091,074	99,772,084
Profit for the Year		5,908,782	77,031,901
Currency Issued	7	942,950,432	861,701,887
CBK Bonds Issued	8	1,243,500,000	352,500,000
Government Accounts		446,845,943	844,811,723
Accounts of banking system liquidity support	9	1,000,000	1,080,021,151
Local Banks' Current Accounts and Deposits with CBK	10	1,524,137,865	1,137,340,994
International Institutions		66,816,619	100,485,968
Deposits on Documentary Credits	12	153,812,407	73,165,910
Other Liabilities	11	93,550,768	100,324,418
		5,045,613,890	**5,027,156,036**
Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts	12	**2,934,601,874**	**2,404,154,633**

The attached notes from 1 to 13 constitute part of these financial statements.

PROFIT & LOSS ACCOUNT FOR FY ENDED 31 MARCH 2010 (KD)

	Note	2009/10	2008/09
Interest & Income from Investments		42,663,590	119,929,614
Interest and Commission Expenses		(93,437)	(74,364)
		42,570,153	119,855,250
Other Income		2,788,003	1,431,271
Operating Income		45,358,156	121,286,521
Operating Expenses	13	(39,449,374)	(44,254,620)
Net Profit for the year		5,908,782	77,031,901
Disposed of according to Article 17, of Law No. 32 of 1968 and its amendments, as follows:			
to the Government Account	5	5,908,782	77,031,901

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

Notes to the Financial Statements
(31 March 2010)

1- Activities:

The Central Bank of Kuwait (CBK) is incorporated by Law No. 32 of 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 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 1968 and amendments thereof, and the Amiri Decree of 4 July 1978, all cash assets and liabilities in foreign currencies are revalued at the exchange rates prevalent on the date of the preparation of the balance sheet, and the resulting gains or losses are taken to the special account.

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

	2009/10	2000/09
Deposits with Foreign Banks and Institutions	4,772,371,500	4,349,693,430
Central Bank Facilities to the International Bank for Reconstruction and Development	4,331,250	4,368,750
	4,776,702,750	**4,354,062,180**

4- Other Assets (KD):

	2009/10	2008/09
Interest Receivable on Deposits and Other Assets	2,214,330	5,487,588
CBK's Share in the Capital of the Industrial Bank of Kuwait	2,791,210	2,791,210
Prepaid Expenses	263,615	230,545
Advance Payments	17,172,666	19,482,560
Other Debit Balances	5,409,081	3,643,897
	27,850,902	**31,635,800**

5- General Reserve Fund:

In accordance with Article 17, paragraphs 3 (a) and (b), of Law No. 32 of 1968 and amendments thereof, the net profits of the CBK shall be paid into the General Reserve Fund until the balance of the fund amounts to twenty-five million Kuwaiti Dinars, unless the Board of Directors recommends and the Minister of Finance approves further increases in the 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):

	2009/10	**2008/09**
Balance at Beginning of the Year	99,772,084	112,028,587
Net difference in foreign currency , resulting from revaluation of cash assets and liabilities in foreign currencies	167,318,990	(12,256,503)
Balance at End of the Year	**267,091,074**	**99,772,084**

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):

	2009/10	2008/09
Net Currency Produced	1,532,556,116	1,357,305,650
Less: Currency in the CBK's Vaults	(589,605,684)	(495,603,763)
	942,950,432	**861,701,887**

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

8- Issued Bonds:

CBK bonds are negotiable and only purchased by local banks and local investment companies subjected 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 1968, and amendments thereof, concerning money, the Central Bank of Kuwait, and the organization of the banking profession so as to support the banking system liquidity.

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

	2009/10	2008/09
Current Accounts	290,211,187	609,970,146
Deposits	287,000,000	322,500,000
Tawarruq Operations (withdrawals)	946,926,678	204,870,848
	1,524,137,865	**1,137,340,994**

11- Other Liabilities (KD):

	2009/10	2008/09
Accrued Expenses	6,393,834	8,689,426
Other Credit Balances	67,140,799	50,362,031
Ministry of Finance, Cost of Supporting Money Market Operations (Note 2-C)	**20,016,135**	**41,272,961**
	93,550,768	**100,324,418**

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.

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

	2009/10	2008/09
a- Accounts Managed by the CBK on Behalf of the Government of Kuwait	2,783,757,360	2,302,741,913
b- Contra Accounts:		
Documentary Credits	149,428,375	77,761,491
Memorial Notes and Coins	1,415,592	1,439,922
Collections According to the Law No. 41 of 1993	547	22,211,307
	150,844,514	101,412,720
	2,934,601,874	**2,404,154,633**

On 31 March 2010, deposits of KD 153,812,407 (KD 73,165,910: 2009) were held against the documentary credits referred to above.

13- Operating Expenses (KD):

	2009/10	2008/09
Employee Costs	19,249,242	17,539,993
Administrative and Computer Operation Costs	2,973,773	2,503,995
Purchases of Furniture, Equipment and Vehicles	299,995	1,437,752
Production and Shipment of Currency	2,901,653	3,097,912
Sundry Expenses	1,862,652	1,736,600
Construction Costs	12,162,059	17,938,368
	39,449,374	**44,254,620**

14- Promissory Notes Held:

On 31 March 2010, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 474,901,483 (KD 480,739,173: 2009).

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ISSN 1029-4589
Designed and Printed by CBK Press.