



بنك الكويت المركزي  
CENTRAL BANK OF KUWAIT



**THE THIRTY- SIXTH  
ANNUAL REPORT**

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**FOR THE FISCAL YEAR 2007/08**

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## **The Annual Report of the Central Bank of Kuwait for the Fiscal Year 2007/08**

### **INTRODUCTION**

It pleases me to present the 36th Annual Report prepared by the Central Bank of Kuwait (CBK) for the fiscal year 2007/08, which includes the report presented by the auditors of the Central Bank of Kuwait approving the truthfulness and fairness of both the financial statements of CBK, the financial position reflected by the Balance Sheet as of 31 March 2008, and the results of operations and activities reflected by the Profit and Loss Account for the fiscal year 2007/08. As usual, this report starts with an introduction before presenting the Balance Sheet and the Profit and Loss Account of CBK, providing a highlight of the main monetary and banking developments witnessed by the Kuwaiti economy, along with the most significant decisions, measures and operations undertaken by the CBK through its departments and offices in the various banking and monetary areas, in addition to the most salient supervisory instructions, circulars, rules and regulations issued by the CBK to all banking and financial sector units subject to its supervision.

It is worth to mention that CBK continued its efforts during the fiscal year 2007/08 to control domestic liquidity growth rates by taking various measures that encompassed using the available monetary policy tools to regulate and steer the noticeable growth in the credit facilities extended by the banking and financial system units in the State of Kuwait. In addition, CBK played a prominent role in curbing inflationary pressures on the one hand, and establishing monetary and financial stability in the country on the other hand, under increasing domestic and international inflation and its implications for the Kuwaiti economy.

Also, the fiscal year 2007/08 witnessed several monetary and banking developments, the most significant of which was un-doing the peg, that existed since January 2003, between the exchange rate of the Kuwaiti dinar and the US dollar by virtue of the Decree No. 147 of the year 2007, which re-pegged the exchange rate of the KD to a special weighted basket of currencies of countries that have significant foreign trade and financial relations with the State of Kuwait. The exchange rate of the KD against

the US dollar was determined on 20 May 2007 at 288.06 fils per US dollar. Also, in the light of CBK's continued review of the domestic interest rate levels on the Kuwaiti dinar and their consistency with the domestic developments on the one hand, and trends of interest rates on the world currencies on the other hand, the CBK made one change in the discount rate by decreasing it by one percentage point to 5.75% on 23 January 2008, from 6.25%. The CBK also approved the licensing of the National Bank of Qatar to open a branch in the State of Kuwait, and approved in principle during the fiscal year 2006/07 the licensing of both the Doha Bank and the Al-Rajhi Banking & Investment Corporation to open a branch for each in the State of Kuwait. Furthermore, the CBK registered the International Bank of Kuwait (previously the Kuwait Real Estate Bank), which had previously obtained an approval to operate according to the provisions of Islamic Sharia.

During the fiscal year 2007/08 the CBK continued its efforts aimed at developing and modernizing the infrastructure and the information technology used by CBK to bring them in tune with the latest international developments in the field. CBK applied the most up-to date systems in the bank's different departments and offices, and worked on designing and execution of technical programs that would ensure the continuity of operations in CBK during different circumstances, and in accordance with the latest international standards in this regard.

Continuing its efforts to transform the State of Kuwait into a trade and financial center, the CBK formed a national technical team, during the fiscal year 2007/08, with members from many government bodies and the private sector to collaborate with McKinsey & Company (an international consulting firm) to prepare a study to develop the State of Kuwait into a major regional trade and financial center.

In closing, we pray the Almighty to grant success to our efforts and endeavors for achieving the benefit of 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 Sheikh Nasser Al-Mohammed Al-Ahmed Al-Sabah, may God guide him.

**Salem Abdulaziz Al-Sabah**  
**Governor of the Central Bank of Kuwait**

## First: The Main Monetary and Banking Developments:

This part of the report highlights the most salient developments in the main monetary aggregates and banking indicators in the State of Kuwait during the fiscal year 2007/08, within CBK's continued efforts connected to drawing and execution of the monetary policy, and supervision and oversight of the banking and financial sector units subject to its supervision, and which aim to establish monetary stability in the country and curb the inflationary pressures on the one hand, as well as to create conditions conducive to strengthening the sound financial positions of the local banking and financial system units in the State of Kuwait on the other hand, in line with the objectives of the general economic policies of the State of Kuwait.

### 1- Monetary Developments:

#### A- Money Supply:

Money Supply in its broad definition (M2) recorded a noticeable rise of KD 3263.4 million or 19.1% to KD 20393.5 million at end of the fiscal year 2007/08, against KD 17130.1 million at end of the fiscal year 2006/07. This rise in Money Supply resulted from the rise in both Quasi-money by KD 2428.5 million or 18.5% (from KD 13108.8 million to KD 15537.2 million) and Money (the narrow definition of money supply M1) by KD 835 million or 20.8% (from KD 4021.3 million to KD 4856.3 million).

#### Developments in Money Supply (M2) (KD Million)

| End of Period             | 2005/06        | 2006/07        | 2007/08        | Change from 2006/07<br>to 2007/08 |             |
|---------------------------|----------------|----------------|----------------|-----------------------------------|-------------|
|                           |                |                |                | Value                             | %           |
| <b>Money Supply (M2):</b> | 14524.7        | 17130.1        | 20393.5        | 3263.4                            | 19.1        |
| Money (M1), of which :    | <u>3844.8</u>  | <u>4021.3</u>  | <u>4856.3</u>  | <u>835.0</u>                      | <u>20.8</u> |
| Sight Deposits            | 3268.7         | 3382.1         | 4190.5         | 808.4                             | 23.9        |
| Quasi-Money:              | <u>10680.0</u> | <u>13108.8</u> | <u>15537.2</u> | <u>2428.5</u>                     | <u>18.5</u> |
| KD Deposits               | 8864.0         | 11667.8        | 13921.1        | 2253.3                            | 19.3        |
| Foreign Currency Deposits | 1815.9         | 1440.9         | 1616.1         | 175.2                             | 12.2        |

Regarding factors affecting changes in money supply (M2) within the aggregate monetary position of the CBK and local banks<sup>1</sup> during the fiscal year 2007/08, the above rise of KD 3263.4 million or 19.1% in Money Supply (M2) was the outcome of the increase in the net domestic assets of these institutions by KD 4077.4 million and the decrease in their net foreign assets by KD 814 million. The mentioned increase in net domestic assets is essentially attributable to the rise in local bank claims on the private sector by KD 6248.7 million or 36.5%. Furthermore, the increase in the government accounts with the CBK and deposits with local banks<sup>2</sup> (by KD 553.8 million or 23.7%), and in the other net claims of the CBK and local banks (by KD 1469.2 million or 26.4%) on the one hand, and the decline in the local banks' claims on the government (by KD 168.2 million or 8.6%) on the other, curbed the mentioned growth in net domestic assets. As for the above mentioned decline of KD 814 million in net foreign assets during the fiscal year 2007/08, it is attributable to the decrease in CBK net foreign assets by KD 1683.8 million or 28.7% on the one hand, and the increase in local bank net foreign assets by KD 869.8 million or 2.4% on the other.

#### **B- Domestic Interest Rates:**

The CBK changed its discount rate during the fiscal year 2007/08 once by 50 basis points, on the 23<sup>rd</sup> of January 2008, bringing the discount rate to 5.75% at end of the fiscal year 2007/08, against 6.25% at end of the previous fiscal year. This decrease in the discount rate was in the light of CBK's continued monitoring of the domestic monetary and banking developments on the one hand, and the developments in interest rates on major currencies on the other. More specifically, the decision to decrease the discount rate was part of CBK's consistent endeavors to enhance the competitiveness of the Kuwaiti dinar, and its sustained efforts to strengthen the attractiveness of the national currency as a store of national savings.

Within this context, regarding the interest rates on customers' KD and US dollar

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<sup>1</sup> Local banks encompass commercial banks (National Bank of Kuwait, Commercial Bank of Kuwait, Gulf Bank, Al-Ahli Bank of Kuwait, Bank of Kuwait and the Middle-East, Burgan Bank, the branch of Bank of Bahrain and Kuwait, the branch of BNP-Paribas Bank, the branch of the HSBC Middle-East Bank, the branch of Abu Dhabi National Bank, the branch of Citibank Bank, and the branch of Qatar National Bank), specialized banks (the Industrial Bank of Kuwait), in addition to banks operating according to the provisions of Islamic Sharia' (Kuwait Finance House, Bubyah Bank, and Kuwait International Bank).

<sup>2</sup> Includes deposits of ministries, governmental departments, and public institutions with attached budgets, in addition to the Credit and Savings Bank.

deposits with local banks, the interest rates on customers' KD time deposits with these banks during the fiscal year 2007/08 witnessed a decline compared with the previous fiscal year. Particularly, the averages of interest rates on the one-month and three-month KD deposits declined during the fiscal year 2007/08 to 4.507% and 4.646% respectively, against 5.013% and 5.209% for these two terms respectively during the previous fiscal year.

On another front, the average interest rates on the one-month and three-month US dollar deposits declined to 4.182% and 4.233% respectively during the fiscal year 2007/08, against 4.559% and 4.654% for these two terms respectively during the previous fiscal year. Accordingly, the margins between the average interest rates on the KD and US dollar deposits for the one-month and three-month terms during the fiscal year 2007/08 reached 0.325 percentage point and 0.412 percentage point respectively, in favor of KD deposits. In the same direction, the average interest rates on the KD interbank deposits declined during the fiscal year 2007/08, compared to the previous fiscal year.

Furthermore, decline was witnessed during the fiscal year 2007/08 in average interest rates on Public Debt Instruments, whereby the average interest rate on the one-year Treasury Bonds declined from 5.94% during the fiscal year 2006/07, to 4.49% during the fiscal year 2007/08.

### **C- The KD Exchange Rate:**

The fiscal year 2007/08 witnessed the issuance of the Decree Law No. 147 for year 2007, which re-pegged the exchange rate of the Kuwaiti dinar as of 20<sup>th</sup> May 2007 to a weighted basket of currencies of countries that have significant trade and financial relations with the State of Kuwait. According to the Decree Law, the CBK ended applying the policy of pegging the KD exchange rate to the US dollar which was adopted since the 5<sup>th</sup> January 2003. On 20 May 2007, the KD exchange rate against the US dollar was set at 288.06 fils/dollar. Worth noting is that the average exchange rate of the US dollar against the KD reached 280.02 fils during the fiscal year 2007/08, compared with 289.45 fils during the previous fiscal year, i.e. a decline of 9.43 fils or 3.2%. The difference between the highest (289.14 fils) and the lowest (265.30 fils) exchange rate of the US

dollar against the KD was 9%. In contrast, the exchange rate of the US dollar against other major currencies witnessed pronounced fluctuations during the fiscal year 2007/08, whereby the difference between the highest and lowest exchange rates of the US dollar reached 27.5% against the Japanese yen, 27.3% against the Swiss franc, 19.1% against Euro, and 7.9% against the Sterling pound.

**Developments in the Exchange Rate of the US dollar  
Against the KD and Other Major Currencies**

| Item                        | 2006/07       |              |        | 2007/08       |              |            |
|-----------------------------|---------------|--------------|--------|---------------|--------------|------------|
|                             | Highest Price | Lowest Price | Change | Highest Price | Lowest Price | Change (%) |
| Kuwaiti Dinar (fils/ US \$) | 292.00        | 289.14       | 1.0    | 289.14        | 265.30       | 9.0        |
| Sterling Pound / US \$      | 0.5769        | 0.5045       | 14.4   | 0.5148        | 0.4770       | 7.9        |
| Euro / US \$                | 0.8285        | 0.7470       | 10.9   | 0.7519        | 0.6314       | 19.1       |
| Swiss Franc / US \$         | 1.3088        | 1.1925       | 9.8    | 1.2438        | 0.9769       | 27.3       |
| Japanese Yen / US \$        | 121.965       | 109.425      | 11.5   | 123.88        | 97.125       | 27.5       |

**D- Bank Credit:**

The balances of the utilized portion of cash credit facilities extended by local banks to the various domestic economic sectors rose during the fiscal year 2007/08 by KD 5537.1 million (35%) to KD 21359.5 million at end of the mentioned fiscal year, compared with KD 15822.4 million at end of the fiscal year 2006/07. This rise resulted from the increase in the balances of these facilities extended to the Real-Estate sector (by KD 1903 million or 53.8%), the Personal Facilities sector (by KD 1004.8 million or 16.2%), the Non-Bank Financial Institutions sector (by KD 937.4 million or 53.8%), "other" sectors (by KD 580.3 million or 74.3%), the Construction sector (by KD 505.6 million or 50.5%), the Industry sector (by KD 395.6 million or 51.7%), and the Trade sector (by KD 220.8 million or 13.1%). As for the KD credit facility agreements with residents during the fiscal year 2007/08, which reflect the changes in limits of existing credit facilities and the credit facilities extended to new clients, data indicate that the value of these facilities rose by KD 3334.8 million or 44.6% to KD 10815.1 million during the fiscal year 2007/08, against KD 7480.4 million during the previous fiscal year.

## **E- Domestic Liquidity**

Within the efforts aimed at regulating the level of domestic liquidity, the CBK applied during the fiscal year 2006/07 its various monetary policy instruments to regulate these levels. In this regard, the balance of local bank time deposits with CBK, according to the CBK deposit acceptance scheme, declined by KD 2103.6 million or 76.2% to KD 658.5 million at end of the fiscal year 2007/08, compared with KD 2762.1 million at end of the previous fiscal year 2006/07. Furthermore, the CBK Bonds declined by KD 303.4 million or 35.7% to KD 546.6 million at end of the fiscal year 2007/08, compared with KD 850 million at end of the previous fiscal year.

## **F- Issuance of Public Debt Instruments:**

Within CBK's efforts aimed at regulating levels of domestic liquidity, the CBK continued during the fiscal year 2007/08 the issuance of Public Debt Instruments (Kuwaiti Treasury Bonds) on behalf of the Ministry of Finance, noting that the issuance of Treasury Bills was discontinued as of April 2005.

In this connection, during the fiscal year 2007/08 the CBK offered 18 issues of one-year Treasury Bonds with a total nominal value of KD 1641 million. 18 previous issues of these one-year bonds have matured with a total nominal value of KD 1641.2 million. Accordingly, the outstanding balance of Treasury Bonds declined at end of the fiscal year 2007/08 by KD 0.2 million to KD 2296 million, compared with KD 2296.2 million during the previous fiscal year. The outstanding balance of Public Debt Instruments at end of the fiscal year 2007/08 was essentially distributed between local banks at KD 1779.9 million (77.5%) and other institutions at KD 516.1 million (22.5%).

The fiscal year 2007/08 also witnessed the continued retirement of the Debt Purchase Bonds (which are bonds issued against the debts purchased according to Law No. 41 of 1993 and the amendments thereof), whereby the outstanding balance of these bonds reached KD 0.6 million at end of the mentioned fiscal year, thus recording a decline of KD 155.5 million or 99.6% compared to their balance of KD 156.2 million at end of the previous fiscal year.



## **2 - Banking Developments:**

### **A- The Aggregate Balance Sheet of Local Banks**

The aggregate balance sheet of local banks (commercial, specialized and Islamic banks) witnessed a noticeable rise of KD 8134 million or 28% at end of the fiscal year 2007/08 to reach KD 37.2 billion, against KD 29.1 billion at end of the fiscal year 2006/07. The mentioned rise was the outcome of several developments in the items of that balance sheet on both the assets and liabilities sides. The most significant of these developments can be highlighted as follows:

#### **On the Assets Side:**

- The rise in the balance of local bank claims on the private sector by KD 6248.7 million (or 36.5%) to KD 23382.6 million at end of the fiscal year 2007/08, against KD 17134 million at end of the fiscal year 2006/07. This rise resulted from the increase in the balances of both the utilized portion of cash credit facilities extended by local banks to the domestic economic sectors by KD 5537.1 million (35%) to KD 21359.5 million at end of the fiscal year 2007/08, from KD 15822.4 million at end of the previous fiscal year on the one hand, and the balances of other domestic investments by KD 711.5 million (54.2%) to KD 2023.1 million at end of the fiscal year 2007/08, against KD 1311.6 million at end of the previous fiscal year, on the other hand.
- The increase in the balance of total foreign assets of local banks by KD 3170.6 million (74.3%) to KD 7439.2 million at end of the fiscal year 2007/08, against KD 4268.7 million at end of the previous fiscal year. This rise was the outcome of the increase in the balances of local bank deposits with foreign banks by KD 2108.8 million (90.5%), other foreign assets by KD 244.4 million (298.5%), foreign investments of local banks by KD 455.1 million (41.1%), and credit facilities extended to non-residents by KD 362.2 million (48.5%).

**Aggregate Balance Sheet of Local Banks**  
(KD Million)

| Items                                | 2005/06        | 2006/07        | 2007/08        |
|--------------------------------------|----------------|----------------|----------------|
| <b>Assets:</b>                       |                |                |                |
| <b>Cash</b>                          | 92.1           | 108.4          | 98.1           |
| <b>Claims on CBK:</b>                | <u>1185.3</u>  | <u>3680.2</u>  | <u>1778.6</u>  |
| Balances (sight deposits) with CBK   | 69.8           | 68.1           | 573.6          |
| Bonds held with the CBK              | 30.0           | 850.0          | 546.6          |
| <b>Time deposits with CBK</b>        | 1085.5         | 2762.1         | 658.5          |
| <b>Local Interbank Deposits</b>      | 1231.2         | 1213.0         | 1897.5         |
| <b>Claims on the Government:</b>     | <u>2409.4</u>  | <u>1961.8</u>  | <u>1793.6</u>  |
| Public Debt Instruments              | 2045.2         | 1810.3         | 1793.6         |
| Debt Purchase Bonds                  | 364.3          | 151.5          | -              |
| <b>Claims on the Private Sector:</b> | <u>13648.2</u> | <u>17134.0</u> | <u>23382.6</u> |
| Credit Facilities to Residents       | 12550.5        | 15822.4        | 21359.5        |
| Other Domestic Investments           | 1097.7         | 1311.6         | 2023.1         |
| <b>Foreign Assets:</b>               | <u>4288.3</u>  | <u>4268.7</u>  | <u>7439.2</u>  |
| Deposits with Foreign Banks          | 2782.0         | 2330.9         | 4439.7         |
| Credit Facilities to Non-Residents   | 504.9          | 747.4          | 1109.6         |
| Foreign Investments                  | 902.5          | 1108.4         | 1563.5         |
| Other Foreign Assets                 | 98.8           | 81.9           | 326.3          |
| Other Assets                         | 534.3          | 734.5          | 844.8          |
| <b>Assets = Liabilities</b>          | <b>23388.8</b> | <b>29100.5</b> | <b>37234.5</b> |
| <b>Liabilities:</b>                  |                |                |                |
| <b>Private Sector Deposits:</b>      | <u>13948.7</u> | <u>16490.9</u> | <u>19727.7</u> |
| KD Deposits                          | 12132.7        | 15050.0        | 18111.6        |
| Foreign Currency Deposits            | 1815.9         | 1440.9         | 1616.1         |
| <b>Government Deposits</b>           | 977.3          | 1552.0         | 1922.7         |
| <b>Local Interbank Deposits</b>      | 1104.1         | 1247.2         | 1836.8         |
| <b>Shareholders' Equity</b>          | 2908.5         | 3315.7         | 4752.7         |
| <b>Foreign Liabilities:</b>          | <u>2700.9</u>  | <u>4305.1</u>  | <u>6605.8</u>  |
| Deposits from Non-Resident Banks     | 1539.7         | 2339.3         | 3037.2         |
| Other Non-Residents Deposits         | 1055.9         | 1851.1         | 3434.0         |
| Other Foreign Liabilities            | 105.3          | 114.7          | 134.7          |
| <b>Other Liabilities</b>             | 1749.3         | 2189.6         | 2388.6         |
| <b>Contra Accounts:</b>              | 5047.2         | 6597.5         | 8903.9         |
| Bank Guarantees                      | 3344.5         | 4255.7         | 5418.4         |
| Documentary Credits                  | 1327.3         | 1940.7         | 2702.0         |
| Bank Acceptances                     | 375.4          | 401.0          | 783.6          |

- The decline in the balance of local bank claims on the CBK (accounts, deposits and bonds with the CBK) by KD 1901.6 million (51.7%) to KD 1778.6 million at end of the fiscal year 2007/08, against KD 3680.2 million at end of the previous fiscal year. This decline resulted essentially from the noticeable decrease in the balances of local bank time deposits with the CBK by KD 2103.6 million (76.2%) to KD 658.5 million at end of the fiscal year 2007/08, against KD 2762.1 million at end of the previous fiscal year.

- The decline in the balance of local bank claims on the government by KD 168.2 million (8.6%) to KD 1793.6 million at end of the fiscal year 2007/08, against KD 1961.8 million at end of the previous fiscal year. The mentioned decline reflects the decrease in both the balance of Debt Purchase Bonds by KD 151.5 million or 100%, and the balance of local banks' holding of Public Debt Instruments (Kuwaiti Treasury Bonds) by KD 16.7 million (0.9%) to KD 1793.6 million at end of the fiscal year 2007/08, against KD 1810.3 million at end of the previous fiscal year.

**On the Liabilities Side:**

- The rise in the balances of the resident private sector deposits with local banks by KD 3236.8 million (19.6%) to KD 19727.7 million at end of the fiscal year 2007/08, against KD 16490.9 million at end of the previous fiscal year. The mentioned increase was the outcome of the rise in the balances of KD deposits by KD 3061.6 million (20.3%) to KD 18111.6 million at end of the fiscal year 2007/08, against KD 15050 million at end of the previous fiscal year, and foreign currency deposits by KD 175.2 million (12.2%) to KD 1616.1 million at end of the fiscal year 2007/08, against KD 1440.9 million at end of the previous fiscal year.
- The rise in the balances of government deposits with local banks by KD 370.8 million (23.9%) to KD 1922.7 million at end of the fiscal year 2007/08, against KD 1552 million at end of the previous fiscal year.
- The rise in the balances of shareholders' equity in local banks by KD 1437.6 million (43.3%) to KD 4752.7 million at end of the fiscal year 2007/08, against KD 3315.7 million at end of the previous fiscal year.
- The increase in the balances of foreign claims on local banks by KD 2300.8 million (53.4%) to KD 6605.8 million at end of the fiscal year 2007/08, against KD 4305.1 million at end of the previous fiscal year. This increase was the outcome of the rise in the balances of foreign bank deposits with local banks by

KD 697.8 million (29.8%), deposits of foreign non-bank entities by KD 1582.9 million (85.5%) and other foreign liabilities by KD 20 million (17.4%).

#### **B- The Aggregate Balance Sheet of Investment Companies:**

The total aggregate balance sheet of local investment companies (conventional and Islamic) rose by KD 3381.1 million (24.8%) to KD 17007.3 million at end of the fiscal year 2007/08 (for 83 companies) compared to KD 13626.2 million at end of the fiscal year 2006/07 (for 76 companies). This growth reflects several developments among the elements of assets and liabilities, which can be outlined in the following:

#### **On the Assets Side:**

- The "cash and balances" of local investment companies with local banks rose by KD 272.4 million or 26.2% to KD 1313.5 million at end of the fiscal year 2007/08 from KD 1041.1 million at end of the previous fiscal year. This increase resulted essentially from the growth in the total balances of domestic investment accounts with local banks by KD 1693.1 million (37.4%) to KD 6219.4 million at end of the fiscal year 2007/08 from KD 4526.4 million at end of the previous fiscal year.

**Aggregate Balance Sheet of Local Investment Companies**  
(KD Million)

| Items                                    | Balances at Year-End |                |                |
|--|----------------------|----------------|----------------|
|  | 2005/06              | 2006/07        | 2007/08        |
| <b>Assets:</b>                           |                      |                |                |
| Cash & Balances with Local Banks         | 650.7                | 1041.1         | 1313.5         |
| Customer Financing:                      | <u>1488.5</u>        | <u>1732.7</u>  | <u>1865.5</u>  |
| Loans and Discounts to Residents         | 996.0                | 1037.3         | 1060.4         |
| Customers financing by Islamic financial | 492.5                | 695.4          | 805.1          |
| Local Investments:                       | <u>3467.2</u>        | <u>4526.4</u>  | <u>6219.4</u>  |
| Financial Investments                    | 2956.2               | 4035.1         | 5732.5         |
| Non-financial Investments                | 511.0                | 491.3          | 486.9          |
| Foreign Assets:                          | 3474.2               | 4908.2         | 5800.2         |
| Other Assets                             | 1064.1               | 1417.7         | 1808.6         |
| <b>Assets = Liabilities</b>              | <b>10144.7</b>       | <b>13626.2</b> | <b>17007.3</b> |
| <b>Liabilities:</b>                      |                      |                |                |
| Capital and Reserve                      | 3866.9               | 4970.6         | 6206.1         |
| Financing from Residents:                | 2336.7               | 3623.1         | 4594.1         |
| Bonds, of which financing Sukuks         | 683.5                | 879.8          | 806.6          |
| Foreign Liabilities                      | 1774.9               | 2568.0         | 2971.2         |
| Other Liabilities                        | 1482.6               | 1584.7         | 2429.3         |
| <b>Number of Companies</b>               | 62                   | 76             | 83             |

- The balances of domestic investments rose by KD 1693.1 million or 37.4% to KD 6219.4 million at end of the fiscal year 2007/08 from KD 4526.4 million at end of the previous fiscal year. This rise was the result of the increase in the balances of domestic financial investments by KD 1697.4 million or 42.1% and the decrease in domestic non-financial investments by KD 4.3 million or 0.9%.
- The increase in the balances of customers financing by KD 132.7 million or 7.7% to KD 1865.5 million at end of the fiscal year 2007/08 from KD 1732.8 million at end of the previous fiscal year. This rise was the result of the increase in the balances of both financing by Islamic financial instruments by KD 109.7 million or 15.8% and financing by loans and discounts from conventional companies by KD 23.1 million or 2.2%.
- The rise in the total balance of foreign assets by the equivalent of KD 892 million or 18.2% to the equivalent of KD 5800.2 million at end of the fiscal year 2007/08 compared to the equivalent of KD 4908.2 million at end of the previous fiscal year. This rise was essentially the outcome of the rise in foreign investments (financial and non-financial investments) by the equivalent of KD 680.6 million or 15.4%, and cash and balances with foreign banks and financial institutions by the equivalent of KD 120.1 million or 59.2%.

**On the Liabilities Side:**

- The increase in the balances of financing from residents (encompasses the banking and financial sector institutions in addition to non-financial institutions), by KD 971.1 million or 26.8% to KD 4594.1 million at end of the fiscal year 2007/08 compared to KD 3623.1 million at end of the fiscal year 2006/07. The mentioned rise (115.8%) essentially resulted from the rise in the balance of financing from local banks by KD 1124.9 million or 58.5%.
- The increase in the total balance of foreign liabilities by the equivalent of KD 403.2 million or 15.7% to the equivalent of KD 2971.2 million at end

of the fiscal year 2007/08, compared to KD 2568 million at end of the fiscal year 2006/07.

- The increase in the total balance of shareholders' equity by KD 1235.5 million or 24.9% to KD 6206.1 million at end of the fiscal year 2007/08, compared to KD 4970.6 million at end of the previous fiscal year.

## **Second: The Main Supervisory Measures and Instructions Issued by the CBK**

The CBK continued during the fiscal year 2007/08 its efforts aimed at developing its supervision and oversight over the local banking and financial system units in the State of Kuwait, which contributes to increasing their efficiency and competitive ability, and further strengthening the soundness of their financial positions according to the international oversight standards. CBK efforts encompassed both methods of off-site supervision, and on-site inspection, in addition to issuing several instructions and regulations to the banking and financial units subject to its supervision, to ensure the safety and soundness of the professional practices in the financial and banking system units, and endeavoring to establish a competitive environment to provide high quality banking services. The most significant among these measures were the following:

### **1- Regulations Regarding Credit Policy (Consumer and Installment Loans):**

During the fiscal year 2007/08 the CBK issued several instructions and regulations regarding the credit policy of the financial and banking system units, ahead of which were the regulations on consumer and installment loans, by which the CBK aimed to rationalize the credit and curb its large growth, as follows:

- In addition to the instructions, issued on February 2007 enjoining banks and investment companies to correct all the violations in the consumer and installments loans, and also explaining the method of correction of the violations of exceeding the maximum limit of the loan, the monthly installment, or the maximum limit of the maturity period, the CBK issued later other instructions in this regard, the most significant among which were the following:

- The circular issued on 15/4/2007 to local banks and investment companies regarding early settlement fees on the consumer and installment loans.
  
- The circular issued on 20/6/2007 ensuring the adherence of local banks to all limits mentioned in CBK's instructions concerning credit cards issued by local banks, particularly regarding the maximum limit for the installment amount, the maximum limit for the settlement period, the total installments deducted from the customer, along with the obligation to correct all violations in this regard, and providing a certificate signed by the bank auditors ensuring correction of all violations. In addition to several circulars regarding following up the correction, tabulation, and inventorying of the violations, and providing certificates from the auditors to CBK.
  
- The circular issued on 17/07/2007 to all local banks and investment companies regarding immediately discontinuing to extend customers any cash or in kind incentives against obtaining credit cards or facilities, and discontinuing advertisement campaigns undertaken by local banks and investment companies in this regard. This circular aims to reduce consumerism in the Kuwaiti society and to curb the growth in the credit facilities through the commercial offers of these units.
  
- The circular issued on 19/11/2007 assigning the auditors of local banks and investment companies to examine consumer and installment loans extended during the period between 16/1/2007 and 31/12/2007, and to submit a report in this regard by end April 2008 at the latest. The audited loans encompass the new loans extended by local banks and investment companies after the date of the notification to correct the violations during the previous period. This circular is part of CBK efforts to ensure the adherence of banks and investment companies to the principles of extending consumer and installment loans, and avoiding any new violations after January 2007.
  
- On 24/3/2008, the CBK made fundamental adjustments to the principles and bases of extending consumer and installment loans, along with decreasing the margin of interest rates on these loans, and adjusting the interest calculation method, which contribute to the conformity of local banks' rights on the one

hand, and those of the customers on the other hand. The most significant of those adjustments were:

- Decrease the interest rate calculated on consumer and installment loans (housing) to three percentage points above the discount rate instead of four percentage points.
- Apply a fixed interest rate on installment loans, according to the applicable interest rates at the time of extending these loans, given that the contracts signed with the customer must include an item stating that the lending entity must review the applied interest rate every five years during the loan term, whereby the interest rate must be changed at the end of every five years of the installment term to keep pace with CBK's interest rate provided that the amount of change in the average interest rate does not exceed two percentage points (increase or decrease) of the applicable interest rate set by the loan contract before the change.
- Decrease the maximum monthly installment limit for the customer to 40% of the net monthly salary or income (after deductions), or the continued monthly income of the customer. As for the retiree customers, the monthly installment was decreased to 30%.
- The new amendments forbid upfront deduction of the interest on the consumer loans, as was allowed for local banks and conventional investment companies according to the previous instructions.
- The new amendments also ban the last (balloon) payment method, as all the installments must not exceed the determined maximum limit.

## **2- Enhancing Competitiveness, Efficiency, and Good Governance Standards:**

The CBK continued its efforts in enhancing aspects of competitiveness and efficiency in the banking and financial system units subject to its supervision during the fiscal year 2007/08, within the context of its supervising and overseeing functions. In this regard, CBK efforts to ensure local bank adherence to the instructions regarding



operation in accordance with the international supervision standards, and increasing the ability of these banks in pricing their banking services without exaggeration to match the cost of providing these services, along with continuing to follow a deliberate approach of giving new licenses to establish branches of foreign banks. Within this context, licenses were given during the fiscal year 2007/08 to Qatar National Bank and Doha Bank to open a branch each in the State of Kuwait, in addition to an initial approval for Al-Rajhi Investment Company (Al-Rajhi Bank) to open a branch in the State of Kuwait. Furthermore, the CBK registered the Kuwait International Bank (previously the Kuwait Real Estate Bank), which obtained an approval to operate in accordance with the provisions of Islamic Sharia. Worth noting is that the banking and financial units as of end of the fiscal year 2007/08 consist of commercial, specialized and Islamic banks (16 banks), investment companies (83 companies, of which 42 companies operate according to the provisions of the Islamic Sharia), exchange companies (40 companies), and investment funds (105 investment funds, of which 50 funds operate according to the provisions of the Islamic Sharia).

In continuation of CBK efforts aimed at strengthening standards of Governance to establish good management practices at the banking and financial institutions, the CBK issued on 6/6/2007 and 24/7/2007 instructions amending the conditions of experience required for the chief executive officer and the managing director, and amending the nomination forms for these positions by excluding the condition of connecting the experience to working as an employee, and considering all the executive positions occupied by the candidate as part of the experience. As for those positions in Islamic institutions, the condition of having at least five-year experience in main executive positions at Islamic banking or financial institutions was cancelled. These amendments reflect the sustained efforts by CBK in conducting the necessary updates to the standards of governance to bring them in line with the best practices internationally applied in various banking and financial fields. Also, the CBK issued a circular on 16/5/2007 emphasizing the need to complete the application of EMV technology (the Europay, MasterCard and VISA chip) to switch to the smart card, and match the banks Point of Sale (POS) technology, so as to avoid the risks that may arise from the misuse of credit cards and ATM cards issued by local banks. Applying this technology aims to protect the banking environment in the State of Kuwait from fraud.

During the fiscal year 2007/08, the CBK continued its efforts to monitor the abidance by banking system units of the Revised Capital Adequacy Standard (Basel II) requirements. In this regard, data indicate that the actual ratios of the Revised Capital Adequacy Standard (Basel II) at the commercial and specialized local banks (13 banks) are higher than the required ratios for this standard as on end of the fiscal year 2007/08.

### **3- Maximum Ratio of Loans to Deposits:**

In light of CBK directions during the fiscal year 2007/08 to control the growth rates in banking credit, the CBK concentrated its follow-up to the abidance of local banks to its instructions in this regard. The most significant of these instructions is the circular issued on 8/2/2007 regarding adjustment of the calculation method of the maximum ratio of loans to deposits (80%). This adjustment requires that the ratio of the net balance of credit facility portfolio to deposits is calculated based on the daily averages of balances of credit facilities and deposits, instead of calculating the ratio based on the end of month balances.

### **4- Combating Money Laundering and Terrorism Finance:**

The CBK continued its efforts during the fiscal year 2007/08 to perform its role by the virtue of Law No. 35 of year 2002 regarding combating international money laundering and terrorism finance through the National Committee for Combating Money Laundering and Terrorism Finance, whose membership consists of nine local government institutions, in addition to a representative from the private sector. It is chaired by the Governor of CBK. Also, the Kuwaiti Financial Inquiries Unit established in 2003 and chaired by the Governor of CBK, and whose membership consists of the Central Bank of Kuwait, the Ministry of Interior, the Ministry of Commerce and Industry, and the General Administration of Customs continued to follow up execution of legislations connected to combating money laundering and financing international terrorism, and to coordinate with different local and international institutions in order to observe and follow up combating suspect transactions related to money laundering crimes and terrorism finance crimes, and ensure the monitoring of these transactions and curbing their spread.

Within this context, CBK organized an international symposium on Combating Money Laundering and Terrorism Financing during the period 2-3 December 2007 in the State of Kuwait attended by several specialists in the field from local banks, investment companies, exchange companies, GCC countries and several other Arab countries. Also, the CBK and the Kuwaiti Financial Inquiries Unit, in cooperation with the United States Department of the Treasury, organized a symposium within the efforts aimed to combat the financial crime, enhance its follow-up tools, and prevent its occurrence, under the title "The Financial Investigation Unit and its Practical Applications", along with the participation of CBK in several regional and international meetings, symposiums and training programs related to combating money laundering and financing terrorism, within the context of exchanging information and experiences with the concerned regional and international institutions in this regard. The most significant in this regard is the regular participation of the CBK during the fiscal year 2007/08 in the general meetings of the Financial Action Task Force (FATF) that were held in France in February, June and October 2007, and February 2008, in addition to its participation in the meetings of the Middle-East and North Africa Region Financial Action Task Force (MENA FATF) held in the Hashemite Kingdom of Jordan during the period 2-4 April 2007, and the Syrian Arab Republic during the period 5-6 November 2007, and the United Arab Emirates during the period 7-9 April 2008. It participated in the training course organized by the U.S. Federal Deposit Insurance Corporation during the period 6-8 October 2007, and the workshop organized by the Middle-East and North Africa Region Financial Action Task Force in Algeria during the period 18-20 February 2008.

#### **5- Enhancing the Efficiency of the Supervisory System:**

In line with the expansion witnessed by the financial and banking system in the country, particularly after allowing the establishment of several foreign bank branches, the continued increase in the numbers of investment and exchange companies, and the continued growth in the transactions volume of the financial units, the CBK's supervision sector exerted intensive and consistent efforts of supervision and oversight during the various supervisory stages, which includes ensuring the soundness of the banking and financial indicators of these units. These

developments required strengthening the supervision sector, whereby new employees were recruited from the citizens and provided with necessary training in the banking and financial area, as well as providing the continued training to the supervision sector to conform to the developments in the banking and financial business, and the development in international supervisory standards. Furthermore, within the CBK's efforts during the fiscal year 2007/08 in strengthening cooperation and exchanging experiences with foreign supervisory authorities, and the regional and international institutions and authorities, the CBK participated in the preparatory technical meeting of the Gulf Cooperation Council countries concerning the negotiations of free trade agreements with both Singapore and the States of the European Free Trade Association (EFTA) in Riyadh, Saudi Arabia, during the period 12-15 January 2008. It participated in the seminar on "Financial Stability Environment and Report Writing on Financial Stability" organized by the Banking Institute of the Saudi Arabian Monetary Agency in cooperation with the Bank for International Settlements (BIS) in Riyadh, Saudi Arabia, during the period 3-6 February 2008. It also participated in the experts' workshop on Islamic financial policy during the period 27-28 February 2008, where the initiative of the United Arab Emirates regarding establishing an international forum for the Islamic financial policies were discussed in Dubai in the United Arab Emirates. In addition, CBK participated in a seminar on the second pillar of the Revised Capital Adequacy Standard (Basel II), organized by the Financial Stability Institute (FSI) in cooperation with the Central Bank of Qatar in Doha city in Qatar during the period 1-3 April 2008.

### **Third: Major Operations Performed by the CBK**

A rise was witnessed during the fiscal year 2007/08 in CBK activities connected to currency issuance, clearing operations, and transfers between local banks. The value of currency issued by CBK rose during the fiscal year 2007/08, as the average value of notes and coins issued reached KD 758.1 million during that fiscal year, compared with an average of KD 748.6 million during the previous fiscal year. During the fiscal year 2007/08, the balance of currency issued reached its highest (KD 866.7 million) on 17 December 2007, and its lowest (KD 663.1 million) on 21 August 2007. In the same direction, the average value of currency in circulation (the value of currency issued

minus cash balances in vaults of local banks) increased by KD 26.6 million (4.2%) from KD 639.2 million during the fiscal year 2006/07 to KD 665.8 million during the fiscal year 2007/08.

Regarding the areas of relevance to the settlement operations carried out between banks through the CBK, using the *Kuwait's Automated Settlement System for Inter-Participant Payments* (KASSIP), the total value of these operations during the fiscal year 2007/08 amounted to KD 227.3 billion, against KD 129.6 billion during the previous fiscal year, i.e. an increase of KD 97.7 billion or 75.3%. Worth noting is that KASSIP was developed and updated to encompass the branches of foreign banks licensed to operate in the State of Kuwait, in addition to expanding the use of the mentioned system to encompass the direct automated settlements of customers' financial transactions between local banks.

Regarding the operations carried out through the CBK Clearing Room, the total value of these operations rose during the fiscal year 2007/08 to KD 11.9 billion for 2196 thousand transactions (cheques), or an average of KD 5397.4 per transaction, compared with KD 9.5 billion for 2053 thousand transactions (cheques), or an average of KD 4614.6 per transaction, during the fiscal year 2006/07.

Within the application of the 'CBK Bonds' system, the CBK offered during the fiscal year 2007/08 seventeen issues of these Bonds with a total nominal value of KD 1977.2 million (of which 13 issues of 3-month maturity, with a total nominal value of KD 1321.2 million, and 4 issues of 6-month maturity, with a total nominal value of KD 656 million). Of these Bonds, 13 previous issues of 3-month maturity and with a total nominal value of KD 1413.6 million matured during the mentioned fiscal year, and 5 issues of 6-month maturity with a total nominal value of KD 867 million. Accordingly, the outstanding balance of CBK Bonds declined by KD 303.4 million to KD 546.6 million at end of the fiscal year 2007/08, against KD 850 million at end of the fiscal year 2006/07.

Furthermore, during the fiscal year 2007/08, CBK processed on behalf of ministries and governmental institutions 8954 bank drafts amounting to KD 1056.4 million, against 8207 bank drafts valued at KD 779.7 million during the previous fiscal year 2006/07.

The foreign banking transactions processed by CBK to the benefit of ministries and governmental institutions, in the form of documentary credits as well as bills and drafts for collection, during the fiscal year 2007/08 are shown in the following table:

| Particulars                             | No. | Value (in KD)      |
|---|-----|--------------------|
| <b>First- Documentary Credits:</b>      |     |                    |
| 1- <u>Opened:</u>                       |     |                    |
| -Local                                  | -   | -                  |
| -Foreign                                | 43  | 55,204,479/016     |
| 2- <u>Paid:</u>                         |     |                    |
| -Local                                  | -   |                    |
| -Foreign                                | 241 | 36,339,659/637     |
| 3- <u>Amended:</u>                      |     |                    |
| -Local                                  | -   |                    |
| -Foreign                                | 75  |                    |
| <b>Second- Collection Transactions:</b> |     |                    |
| Bills for Collection                    |     |                    |
| a- Incoming                             | -   |                    |
| b- Paid-up                              | -   | -                  |
| <b>Third- Drafts for Collection:</b>    |     |                    |
| a- Collected                            | 135 | <b>746,853/190</b> |
| b- Purchased                            | -   | -                  |

#### **Fourth: Labor force at CBK:**

Within the CBK's efforts toward enhancing the efficiency of the banking cadres in its various departments and offices, and raising their scientific and professional capabilities, the CBK took several measures and decisions during the fiscal year 2007/08, the most important among which were the following:

1. During the fiscal year 2007/08, 33 Kuwaiti graduates (of which 19 holding university degrees and 14 holding diplomas of applied sciences) were accepted as trainees for positions at CBK. Furthermore, during the same fiscal year, 79 individuals, of which 75 Kuwaitis (94.9%) were hired. Also, 18 Kuwaiti trainees who completed their training programs during the fiscal year 2007/08 were confirmed in their jobs at CBK. Accordingly, by end of the fiscal year

2007/08, the total number of CBK staff reached 812 employees, of which 669 (or 85.4%) were Kuwaitis.

2. During the fiscal year 2007/08, the CBK participated in 108 specialized training courses in the State of Kuwait, and sent 483 of its employees to these courses. Furthermore, CBK sent 108 of its employees to 75 training courses abroad, in coordination with a number of specialized training bodies in the fields of banking, finance and economics.
3. During the fiscal year 2007/08, CBK sent 176 of its employees abroad to attend 95 conferences and meetings of relevance to CBK's work, held at the Gulf, Arab and international levels.
4. During the fiscal year 2007/08, the CBK organized several specialized training programs for newly graduate Kuwaiti cadres, holders of university degrees or diplomas, to prepare and qualify them for work in CBK's various departments and offices. In addition to organizing specialized training courses for students of Kuwait University, vocational institutes and employees of government bodies.
5. The CBK contracted with a specialized company to revise and update job description cards for all CBK jobs, whereby all job description cards were revised and job routes were made consistent with the newly adopted CBK cadre structure and applied since January 2007.
6. During the fiscal year 2007/08, the CBK took executive measures of implementing Oracle system at the bank in order to train CBK's employees on this modern technology, in addition to connecting CBK's departments and offices through the mentioned program, which contributes to fulfilling the managerial jobs as fast as possible and at the lowest costs.
7. During the fiscal year 2007/08, the CBK designed an integrated system for written tests based on the international standards to measure different aspects of the intellectual abilities, the knowledge and the skills required of the new

graduates applying for jobs at the CBK, in order to select the best of those new graduates to work in the different departments and offices.

#### **Fifth- Other Operations and Activities:**

During the fiscal year 2007/08, CBK carried various operations and activities, including the following:

- During the fiscal year 2007/08, the CBK continued its efforts towards 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 institutions. In this connection, the value of withdrawn and destroyed currency notes during the fiscal year 2007/08 reached KD 119.3 million.
- Within the CBK's efforts in providing the latest information and data on economic, monetary and banking developments of the State of Kuwait, and aiming to develop and update the monetary and banking databases of the financial and banking system to cope with the local, regional and international developments, the CBK during the financial year 2007/08 expanded the contents of its periodic statistical publications to encompass data and information about plastic cards (credit cards, and ATM cards) issued by local and foreign banks.
- During the fiscal year 2007/08, the CBK continued preparing and publishing its various periodicals (monthly, and quarterly), after expanding the scope of its banking and financial statistics to encompass the local investment companies (conventional, and Islamic) and local exchange companies. The CBK continued to publish its economic and annual reports in both Arabic and English, in addition to updating the contents of its internet homepage which contains various economic, monetary and banking information and statistics, in addition to CBK's major decisions and the press statements by the Governor of CBK.



- During the fiscal year 2007/08, the CBK signed a contract with McKinsey & Company (an international consulting firm) to prepare a study for developing the State of Kuwait to become a major regional trade and financial center, whereby a national technical team formed of representatives from several private sector and government bodies, in addition to the McKinsey team to cooperate in order to prepare the required study. Worth noting is that the Council of Ministers formed a work group chaired by the Governor of CBK to handle the project of preparing the study to develop the State of Kuwait into a trade and financial center.
- During the fiscal year 2007/08, the CBK published a book entitled "Modernizing the Central Banks: The Experiences of the Central Bank of Kuwait", containing 14 speeches of the Governor of CBK given in response to formal invitations during local, regional and international occasions. The mentioned book contains several measures and policies adopted by the Central Bank within the following areas: enhancing standards of "Governance" in the financial and banking system units, developing the supervisory policies in accordance with the international standards, openness issues of the financial and banking sector to the outside world, and the decisions, measures and legislations concerning combating money laundering and terrorism finance.
- Also, the CBK undertook several projects aimed at developing and updating the applied and technical systems used to perform different jobs. The most important of these projects, executed during the fiscal year 2007/08, were the establishment of beneficiary support system (to mechanize and increase the efficiency of the procedures connected to supporting the beneficiaries from bank regulations), the development of programs to follow up collection of financial penalties applied to financial institutions subject to the supervision of CBK (using network techniques), the development of the unified treasury system to increase the effectiveness and efficiency of the State's cash control, and the operation of exchange companies' transfer system connected to data collection of foreign currency transfers executed through exchange companies operating in the State of Kuwait. In addition to the formation and training of a work group to build

an integrated plan to ensure the continuity of work according to the international standards in dealing with emergencies and crises, the completion of the first phase of the electronic gateway project (establishing the unified electronic interface for the application systems in the bank, unifying procedures of accessing different bank systems, connecting the application systems in the electronic gateway, and providing electronic services such as e-mail, connection to the computer, and reporting), the completion of a large part of the project of modernizing the automated system for saving and retrieving documents, and the continued work on technical education, whereby 15 employees from information technology sector in the bank earned 23 international professional certificates.



**Sixth:**

**The Central Bank of Kuwait Balance Sheet  
and Profit & Loss Account for the Fiscal Year  
Ended 31 March 2008**

## **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 the CBK on 31 March 2008 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**

Register of Accountants & Auditors  
License No. 62 A -  
Bader & Partners  
of PRICE WATERHOUSE COOPERS

**Waleed Abdul-Wahab Al-Oseimi**

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

**30 April 2008**  
**State of Kuwait**

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**CENTRAL BANK OF KUWAIT**

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**Balance Sheet As On**

| <b>Assets</b>  | <b>Note</b> | <b>31 March<br/>2007</b> | <b>31 March<br/>2008</b> |
|--|-------------|--------------------------|--------------------------|
| Gold   |             | 31,736,332               | 31,736,332               |
| Cash, Current and Call Accounts in Foreign<br>Currency with Banks and other Financial<br>Institutions    |             | 325,925,543              | 303,029,123              |
| Deposits and Investments in Foreign<br>Currency  | 3           | 5,660,348,600            | 4,007,349,700            |
| Other Assets   | 4           | 33,724,533               | 25,302,531               |
|  |             | <b>6,051,735,008</b>     | <b>4,367,417,686</b>     |
| Accounts Managed by the CBK on Behalf of<br>the Government of the State of Kuwait and<br>Contra Accounts | 10          | <b>2,645,639,944</b>     | <b>2,485,354,763</b>     |

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**31 MARCH 2008 (KD)**

| <b>Equity and Liabilities</b>  | <b>Note</b> | <b>31 March<br/>2007</b> | <b>31 March<br/>2008</b> |
|--|-------------|--------------------------|--------------------------|
| Capital - Fully Paid Up  |             | 5,000,000                | 5,000,000                |
| General Reserve Fund   | 5           | 248,005,727              | 295,000,000              |
| Special Account  | 6           | 305,970,209              | 112,028,587              |
| Profit For the Year  |             | 146,197,646              | 246,134,358              |
| Currency Issued  | 7           | 747,551,642              | 763,875,976              |
| CBK Bonds Issued   |             | 850,000,000              | 546,600,000              |
| Government Accounts  |             | 697,796,244              | 860,878,611              |
| Local Banks' Current Accounts and<br>Deposits with the CBK   | 8           | 2,833,991,755            | 1,252,252,420            |
| International Institutions   |             | 140,158,142              | 146,391,627              |
| Deposits on Documentary Credits  | 10          | 35,720,088               | 57,643,799               |
| Other Liabilities  | 9           | 41,343,555               | 81,612,308               |
|  |             | <b>6,051,735,008</b>     | <b>4,367,417,686</b>     |
| Accounts Managed by the CBK on Behalf<br>of the Government of the State of Kuwait<br>and Contra Accounts | 10          | <b>2,645,639,944</b>     | <b>2,485,354,763</b>     |

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

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**CENTRAL BANK OF KUWAIT**

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**PROFIT & LOSS ACCOUNT FOR  
THE FISCAL YEAR ENDED 31 MARCH 2008  
(KD)**

|  | <b>Note</b> | <b>2006/07</b>      | <b>2007/08</b>      |
|--|-------------|---------------------|---------------------|
| Interest & Income from Investments   |             | 163,403,366         | 262,173,940         |
| Interest and Commission Expenses   |             | <u>(75,789)</u>     | <u>(80,490)</u>     |
|  |             | 163,327,577         | 262,093,450         |
| Other Income   |             | <u>9,079,922</u>    | <u>9,695,167</u>    |
| Operating Income   |             | 172,407,499         | 271,788,617         |
| Operating Expenses   | 11          | <u>(26,209,853)</u> | <u>(25,654,259)</u> |
| <b>Net Profit for the year</b>   |             | <u>146,197,646</u>  | <u>246,134,358</u>  |
| Disposed of according to Article 17, of Law No. 32 of 1968 and its amendments, as follows: |             |                     |                     |
| to the Government Account  | 5           | 99,203,373          | 246,134,358         |
| to the CBK General Reserve Fund  | 5           | <u>46,994,273</u>   | <u>-</u>            |
|  |             | <u>146,197,646</u>  | <u>246,134,358</u>  |

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



## NOTES TO THE FINANCIAL STATEMENTS

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### **1- Activities:**

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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.

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### **2- Significant Accounting Policies:**

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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 difference between the nominal value of obligations arising from intervention operations in the money market (CBK Bonds issued and local banks deposits) and amounts paid in settlement of these obligations 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 taken to the special account.

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

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|  | <u>2006/07</u>       | <u>2007/08</u>       |
|--|----------------------|----------------------|
| Deposits with Foreign Banks and Institutions   | 5,656,012,250        | 4,003,367,950        |
| Central Bank Facilities to the International Bank for Reconstruction and Development | 4,336,350            | 3,981,750            |
|  | <u>5,660,348,600</u> | <u>4,007,349,700</u> |

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**4- Other Assets (KD):**

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|   | <u>2006/07</u>    | <u>2007/08</u>    |
|---|-------------------|-------------------|
| Interest Receivable on Deposits and Other Assets            | 25,797,518        | 14,142,939        |
| CBK's Share in the Capital of the Industrial Bank of Kuwait | 2,511,210         | 2,511,210         |
| Prepaid Expenses  | 693,332           | 223,280           |
| Advance Payments  | 79,957            | 38,728            |
| Other Debit Balances  | 4,642,516         | 8,386,374         |
|   | <u>33,724,533</u> | <u>25,302,531</u> |

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**5- General Reserve Fund:**

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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.

KD 46,994,273 are transferred to the General Reserve Fund, bringing it to KD 295 million, following the approval of the CBK financial data by the Mister of Finance. Accordingly, no allocations were made from the current year profits to be transferred to the General

Reserve during the following fiscal year, whereby the balance of the Reserve reached the standard maximum limit.

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**6- Special Account (KD):**

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|  | <u>2006/07</u>            | <u>2007/08</u>            |
|--|---------------------------|---------------------------|
| Balance at Beginning of the Year   | 180,663,485               | 305,970,209               |
| Net difference in foreign currency , resulting from revaluation of cash assets and liabilities in foreign currencies | <u>125,306,724</u>        | <u>(193,941,622)</u>      |
| <b>Balance at End of the Year</b>  | <b><u>305,970,209</u></b> | <b><u>112,028,587</u></b> |

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

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**7- Currency Issued (KD):**

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|                                    | <u>2006/07</u>            | <u>2007/08</u>            |
|------------------------------------|---------------------------|---------------------------|
| Net Currency Produced              | 1,080,735,142             | 1,322,352,886             |
| Less: Currency in the CBK's Vaults | <u>(333,183,500)</u>      | <u>(558,476,910)</u>      |
|                                    | <b><u>747,551,642</u></b> | <b><u>763,875,976</u></b> |

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

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

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|                  | <u>2006/07</u>              | <u>2007/08</u>              |
|------------------|-----------------------------|-----------------------------|
| Current Accounts | 71,898,523                  | 593,800,846                 |
| Deposits         | 1,939,500,000               | 177,000,000                 |
| Tawarq           | <u>822,593,232</u>          | <u>481,451,574</u>          |
|                  | <b><u>2,833,991,755</u></b> | <b><u>1,252,252,420</u></b> |

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**9- Other Liabilities (KD):**

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|  | <u>2006/07</u>           | <u>2007/08</u>           |
|--|--------------------------|--------------------------|
| Accrued Expenses   | 3,305,542                | 4,307,276                |
| Other Credit Balances  | 33,112,925               | 27,305,032               |
| Ministry of Finance, cost of supporting money market operations (Note 2-C) | 4,925,008                | 50,000,000               |
|  | <b><u>41,343,555</u></b> | <b><u>81,612,308</u></b> |

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 the amount of KD 30,000,000 transferred from the Ministry of Finance after charging the cost of supporting the money market operations carried out by the Bank according to the agreement between the Bank and the Ministry of Finance.

| <b>10- Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts (KD):</b> |                      |                      |
|---|----------------------|----------------------|
|   | <b>2006/07</b>       | <b>2007/08</b>       |
| a- Accounts Managed by the CBK on Behalf of the Government of Kuwait  | 2,583,105,275        | 2,407,563,340        |
| <b>b- Contra Accounts:</b>  |                      |                      |
| Documentary Credits   | 48,782,464           | 64,276,523           |
| Memorial Notes and Coins  | 1,548,324            | 1,483,840            |
| Collections According to the Law No. 41 of 1993   | 12,203,881           | 12,031,060           |
|   | 62,534,669           | 77,791,423           |
|   | <b>2,645,639,944</b> | <b>2,485,354,763</b> |

On 31 March 2008, deposits of KD 57.643.799 (KD 35,720,088: 2007) were held against the documentary credits referred to above.

| <b>11- Operating Expenses (KD):</b>           |                   |                   |
|---|-------------------|-------------------|
|   | <b>2006/07</b>    | <b>2007/08</b>    |
| Employee Costs                                | 19,750,406        | 15,723,686        |
| Administrative and Computer Costs             | 1,946,733         | 2,018,879         |
| Purchases of Furniture, Equipment and Vehicle | 183,787           | 850,714           |
| Production and Shipment of Currency           | 866,252           | 4,330,131         |
| Sundry Expenses                               | 1,321,296         | 1,790,177         |
| Construction Costs                            | 2,141,379         | 940,672           |
|   | <b>26,209,853</b> | <b>25,654,259</b> |

#### **12- Compensation Claims:**

The Board of Directors of the United Nations Compensation Committee issued its decision No. (153) on 13 March 2002, approving the compensation of the CBK for damages sustained as a result of the Iraqi occupation, for an amount of US \$ 117,797,000 equivalent to KD 36,266,162, from a total claim presented by the CBK on 7 February 1994 for an

amount of US \$ 245,756,758 equivalent to KD 73,132,296 as on the date of presenting the claim.

During the previous years, the CBK received partial payments of the approved compensation, totaled KD 24,519,054 after deducting the Ministry of Finance 3% share in the compensation. During the current year, an amount of KD 8,973,789 million was received after deducting 3% Ministry of Finance share in the compensation. Accordingly, the total amount of the approved compensation is received

CBK records compensation amounts as other revenues, effective as on their date of receipt.

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**13- Promissory Notes Held:**

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On 31 March 2008, promissory notes held by the CBK in safe custody on behalf of International Institutions totaled KD 465,430,537 (KD 452,903,838: 2007).

| Contents  | Page |
|---|------|
| <b>Introduction</b>   | 11   |
| <b>First : The Main Monetary and Banking Developments</b>   | 13   |
| 1 - Monetary Developments   | 13   |
| 2 - Banking Developments  | 18   |
| <b>Second : The Main Supervisory Measures and Instructions Issued<br/>by the CBK</b>  | 23   |
| <b>Third : Major Operations Performed by the CBK</b>  | 29   |
| <b>Fourth : The Labor Force at the CBK</b>  | 31   |
| <b>Fifth : Other Operations and Activities Performed by the CBK</b>   | 33   |
| <b>Sixth : The Central Bank of Kuwait Balance Sheet and Profit &amp;<br/>Loss Account for the Fiscal Year Ended 31 March 2006</b> | 37   |
| - Auditors Report   | 39   |
| - Balance Sheet   | 40   |
| Assets  | 40   |
| Equity and Liabilities  | 41   |
| - Profit & Loss Account   | 42   |
| - Notes to the Financial Statements   | 43   |

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