



بنك الكويت المركزي
CENTRAL BANK OF KUWAIT



THE THIRTY-FIRST ANNUAL REPORT

FOR THE FISCAL YEAR 2002/03

The Annual Report of the Central Bank of Kuwait for the Fiscal Year 2002/03

INTRODUCTION

The monetary and banking developments in the State of Kuwait reflect the Central Bank of Kuwait (CBK) efforts in drawing and executing the monetary policy, and developing its programs for supervising and overseeing the banking and financial system units subject to its supervision. CBK's efforts in these areas are aimed at firmly establishing the bases of monetary stability in all facets of the Kuwaiti economy, and creating an atmosphere supporting the efficient operation of the local banking and financial system units

Within that context, the Decree No. 266 for year 2002 concerning the Kuwaiti dinar exchange rate policy, was issued on 15 October 2002 and provided for pegging the exchange rate of the Kuwaiti dinar to the US dollar within specific margins, as of the 1st of January 2003. Pursuant to the provisions of that decree, the CBK governor issued on the 5th of January 2003 a decision which fixed in its first article the parity exchange rate of the Kuwaiti dinar against the US dollar at 299.63 fils /dollar. The second article of that decision stated that the movements of the Kuwaiti dinar against the US dollar shall be within a margin not exceeding 3.5% upward and downward of the mentioned parity exchange rate. Accordingly, effective the 5th of January 2003, the movement of the Kuwaiti dinar exchange rate against the US dollar remains confined between a maximum of 310.117 fils/dollar and a minimum of 289.143 fils/dollar.

On another front, CBK pursued in the fiscal year 2002/03 its efforts in regard to combating money-laundering operations and the financing of terrorism, following the issuance of Law N0. (35) on the 10th of March 2002, concerning combating money-laundering operations and the financing of terrorism. The third Article of that law obligates banking and financial institutions and governmental bodies not to keep anonymous accounts or accounts under fictitious or coded names, to verify their customers' identity against official documents, and to keep all documents concerning their domestic or external transactions including copies of their customers' personal identification documents, for not less than five years. Furthermore, the above law obligates banking and financial institutions and governmental bodies to adopt adequate work measures and internal control systems that enable them to uncover any of these operations as they occur and to avoid being taken advantage of in the perpetration of suspicious operations. The State of

Kuwait efforts in regard to combating money-laundering operations and the financing of terrorism are in tune with international efforts exerted in combating these operations. Worth noting in this connection are the recommendations of the Financial Action Task Force on Money Laundering (FATF), and the consultative paper issued by the Basle Committee in this regard.

From another perspective, CBK pursued during the fiscal year 2002/03 its efforts in developing the legislative structure concerning the activity of the banking and financial system units, whereby CBK participated in several meetings and discussions to answer incoming queries of specialized National Assembly committees on several projects regarding proposed amendments to the Law (32) of year 1968 concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business, particularly the amendments concerning regulating Islamic

This CBK annual report presents an outline of the most significant domestic monetary and banking developments during the fiscal year 2002/2003, in addition to the most important decisions issued by CBK, the systems it set up, and measures and operations it performed in all monetary and banking areas during that period, including the instructions and circulars it addressed to the banking and financial system units subject to its supervision, and finally the Auditors Report, and both CBK's balance sheet and profit and loss account for the mentioned fiscal year.

First : The Main Monetary and Banking Developments

1- Monetary Developments:

The CBK continued during the fiscal year 2002/2003 its efforts in drawing and implementing its monetary policy aimed at firmly establishing the bases of monetary stability in the State of Kuwait. The following are the most significant banking and monetary developments during the fiscal year 2002/03:

A- Money Supply:

Money Supply in its broad definition (M2) recorded a limited growth of KD 89 million or 0.9% to KD 9762.7 million at end of the fiscal year 2002/03, against KD 9673.7 million at end of the

fiscal year 2001/02. This increase was essentially due to a rise in Money (the narrow definition of money supply M1) by KD 357 million or 18.1% (from KD 1974.4 million to KD 2331.4 million) on the one hand, and the decline of KD 267.9 million or 3.5% in Quasi money (from KD 7699.3 million to KD 7431.4 million) on the other.

Regarding factors affecting changes in money supply within the aggregate monetary position of the CBK and local banks during the fiscal year 2002/03, the above rise in Money Supply (M2) was the outcome of the increase in net domestic assets of these institutions by KD 749.6 million (11.7%) on the one hand, and the decline in their net foreign assets by KD 660.6 million (20.3%) on the other. The mentioned increase in net domestic assets reflects the outcome of the rise in local banks claims on the private sector by KD 1157.4 million or 16.6%, government deposits with the CBK and local banks by KD 80.6 million or 12.3%, and other net claims of the CBK and local banks by KD 212.2 million or 6.6% on the one hand, and the decline in local banks claims on the government by KD 115 million or 3.5% on the other. As for the mentioned decrease in net foreign assets, it was essentially the outcome of the decline in net foreign assets of the CBK by KD 751.7 million or 25.5% on the one hand, and the rise in net foreign assets of local banks by KD 91.1 million or 29.3% on the other.

B- The Domestic Interest Rates:

In light of CBK's continued monitoring of domestic interest rates on the Kuwaiti dinar, so as to ensure their consistency with the domestic economic and monetary developments on the one hand and their alignment with the developments in interest rates on major currencies on the other, the CBK carried out during the fiscal year 2002/03 two cuts to the discount rate, totaling one percentage point (from 4.25% to 3.25%). These cuts were each by half a percentage point, on the 3rd of June and 7th of November of year 2002.

Within the same context, available data on the averages of interest rates on customers KD and US dollar deposits with local banks during the fiscal year 2002/03, indicate a decline in the averages of interest rates on these deposits for all terms. The interest rates on customers US dollar time deposits during the mentioned fiscal year recorded a decline surpassing the decline in interest rates on these deposits in Kuwaiti dinar. This led to a broadening of the margins existing in favour of the KD for all terms, as the margin existing in favour of the KD between the averages of interest rates on KD and US dollar deposits at local banks for the one-month, 6-month and 12-month terms during the fiscal year 2002/03 reached 0.72, 0.78 and 0.66 percentage point respectively, against 0.69, 0.88

and 0.78 percentage point for the same terms respectively during the previous fiscal year.

Furthermore, the averages of interest rates on the KD interbank deposits of local banks witnessed a decline for all terms during the fiscal year 2002/03, as these averages decreased by 1.26 percentage point (from 4.01% to 2.75%) for the one-month term, by 1.27 percentage point (from 4.03% to 2.76%) for the three-month term, and by 1.29 percentage point for the twelve-month term (from 4.32% to 3.04%).

As for the average interest rates on Kuwaiti Treasury Bills and Bonds, a decline was recorded in the average of interest rates on the three-month Treasury Bills by 1.11 percentage point (from 3.61% to 2.70%) and six-month Treasury Bills by 1.29 percentage point (from 3.94% to 2.65%). Also, the average of interest rates on the one-year Treasury Bonds issued during the mentioned fiscal year, declined by 1.37 percentage point (from 4.43% to 3.06%) compared to the fiscal year 2001/02.

C- The KD Exchange Rate:

Available data on the developments of the KD exchange rate during the fiscal year 2002/03 indicate the continued manifest relative stability of the KD exchange rate, as the difference between the highest and lowest exchange rates of the US dollar against the Kuwaiti dinar did not exceed 8.95 fils (307.44 fils and 298.49 fils), or 3% during the mentioned fiscal year. Meanwhile, more pronounced fluctuations were witnessed in the US dollar exchange rate against major currencies, as the difference between the highest and lowest exchange rates of the US dollar reached 26.1% against the Euro, 25.4% against the Swiss franc, 15.6% against the Sterling pound, and 15.2% against the Japanese yen. As for developments in the exchange rate of the Kuwaiti dinar, starting from the application of the policy of pegging the exchange rate of the Kuwaiti dinar to the US dollar within specific margins until end of March 2003, available data indicate the continued relative stability of the KD exchange rate, as the difference between the highest and lowest exchange rates of the US dollar against the Kuwaiti dinar did not exceed 2.49 fils (300.98 fils and 298.49 fils), or 0.8% during the mentioned period. In return, the exchange rate of the US dollar against the other major currencies recorded higher fluctuation rates, as the difference between the highest and lowest exchange rates of the US dollar reached 5.6% against the Euro, 5.4% against the Sterling pound, 4.9% against the Swiss franc, and 3.8% against the Japanese yen.

D- Bank Credit:

The balances of utilized portion of cash credit facilities extended by local banks (local commercial and specialized banks, and the Kuwait Finance House) to the different economic sectors recorded a noticeable rise of KD 1063.6 million (17.1%) during the fiscal year 2002/03 from KD 6235 million at end of the fiscal year 2001/02 to KD 7298.6 million at end of the fiscal year 2002/03. This rise was the outcome of the increase in the balances of these facilities extended to most economic sectors, ahead of which the " Personal Facilities" sector (by KD 513 million or 22.8%), the Real Estate sector (KD 191.8 million or 16.8%), the "Other" sector (KD 123.1 million or 35.1%), and the Construction sector (KD 99.1 million or 24.9%) on the one hand, and the decrease in the balances of these facilities extended to the Non-Bank Financial Institutions sector (KD 27.5 million or 4%). As for the distribution of new KD credit facility agreements with residents during the fiscal year 2002/03, 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 639.2 million or 15.7% to KD 4703.1 million during the fiscal year 2002/03, against KD 4063.9 million during the previous fiscal year.

E- Issuing of Public Debt Instruments:

Since November 1987, the CBK issues on behalf of the Ministry of Finance, public debt instruments (Kuwaiti Treasury Bills and Bonds). The CBK pursued during the fiscal year 2002/03 its efforts in issuing public debt instruments, as it made thirty-seven issues of Treasury Bills with a total nominal value of KD 3535 million (of which seventeen issues of three-month maturity and a total nominal value of KD 1375 million, and twenty issues of six-month maturity and a total nominal value of KD 2160 million). During that fiscal year, thirty-one previous issues of these bills with a total nominal value of KD 2835 million reached maturity. Accordingly, the outstanding balance of Treasury Bills at end of the fiscal year 2002/03 declined by KD 700 million or 86.4% to KD 1510 million against KD 810 million at end of the previous fiscal year.

Regarding Treasury Bonds, the CBK made during the fiscal year 2002/03, ten issues of Treasury Bonds with a total nominal value of KD 910 million, all for a one-year term. During the mentioned fiscal year, eighteen previous Treasury Bond issues with a total nominal value of KD 1655 million matured. Accordingly, the outstanding balance of Treasury Bonds declined at end of the fiscal year 2002/03 by KD 745 million or 45%

compared to its level at end of the previous fiscal year.

As a result of the above developments, the outstanding balance of public debt instruments (Treasury Bills and Bonds) declined by KD 45 million or 1.8% to KD 2420 million at end of the fiscal year 2002/03 from KD 2465 million at end of the previous fiscal year. As for the distribution of the outstanding balances of public debt instruments among the various institutions holding them, relevant data indicate that local banks continued to account for the largest portion (90.9%) of the total balance of public debt instruments at end of the fiscal year 2002/03.

2 - Banking Developments:

The aggregate balance sheet of local commercial and specialized banks (in addition to the Kuwait Finance House) rose by KD 1480.2 million or 9.5% to KD 17060.9 million at end of the fiscal year 2002/03 against KD 15580.8 million at end of the fiscal year 2001/02. This rise was the outcome of several developments in the items of that balance sheet, most significant among which are the following:

On the Assets Side:

The rise in balance of local bank claims on the private sector by KD 1155.5 million (16.5%) to KD 8138 million at end of the fiscal year 2002/03 against KD 6982.5 million at end of the fiscal year 2001/02. 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 1061.7 million (17%) to KD 7296.7 million at end of March 2003 from KD 6235 million at end of March 2002, and other domestic investments by KD 93.8 million (12.5%) to KD 841.3 million at end of March 2003 from KD 747.5 million at end of March 2002.

The rise in balance of total foreign assets of local banks by KD 212.2 million (10%) to KD 2328.3 million at end of March 2003, against KD 2116.2 million at end of March 2002. This rise was the outcome of the marked increase in the balances of local banks deposits with foreign banks by KD 221 million (39.5%) to KD 780.4 million at end of March 2003, against KD 559.4 million at end of March 2002, and the decrease in the

balances of credit facilities extended to non-residents by KD 113.1 million (11.1%) to KD 909.9 million at end of March 2003, against KD 1023 million at end of March 2002.

The decline in the balance of local banks claims on the government by KD 115 million (3.5%) to KD 3175.4 million at end of March 2003, against KD 3290.5 million at end of March 2002, as the balance of Debt Purchase Bonds decreased by KD 225.5 million or 18.8% to KD 975.5 million at end of March 2003, against KD 1201 million at end of March 2002. Conversely, the balance of local banks holdings of public debt instruments (Treasury Bills and Bonds) rose by KD 110.5 million (5.3%) to KD 2199.9 million at end of March 2003, against KD 2089.5 million at end of March 2002.

On the Liabilities Side:

The rise in balances of foreign claims on local banks by KD 161.2 million (8.9%) to KD 1966.8 million at end of March 2003, against KD 1805.6 million at end of March 2002. This rise resulted from the increase in the balances of foreign banks deposits with local banks by KD 155.6 million (11.5%), and other foreign deposits by KD 13.5 million (4.6%).

The increase in government deposits with local banks by KD 115.4 million (50.3%) to KD 345.1 million at end of March 2003, against KD 229.6 million at end of March 2002

The increase in shareholder's equity in local banks by KD 93.6 million (5.4%) to KD 1825.9 million at end of March 2003 from KD 1732.3 million at end of March 2002.

The slight decrease in private sector deposits with local banks by KD 16.2 million (i.e. by just 0.2%) to KD 9247.1 million at end of March 2003, from KD 9263.3 million at end of March 2002. The mentioned decrease was the outcome of the decline of foreign currency deposits with these banks by KD 249.8 million (23.9%) to KD 793.5 million at end of March 2003, against 1043.4 million at end of March 2002, and the increase in KD deposits by KD 233.6 million (2.8%) to KD 8453.6 million at end of March 2003, against KD 8219.9 million at end of March 2002.

Second: Significant Supervisory Measures and Instructions Issued by the CBK

CBK exercises its role in the supervision and oversight over the banking and financial system units, through the off-site monitoring and on-site inspections of these units, within its efforts for enhancing the strength of the banking and financial sector in the State of Kuwait. Furthermore, CBK is keen on exerting unremitting efforts to rationalize the credit policies of units subject to its supervision along with following up these units' compliance with CBK's rules, regulations and supervisory instructions. In this regard, CBK issued during the fiscal year 2002/03 several circulars, instructions and regulations to the banking and financial units subject to its supervision, most significant among which are the following:

Both circulars issued to all local banks on 7 April 2002 and 29 May 2002 regarding fees and commissions in connection with credit facilities extended to bank customers, or with all other areas of bank activities, whereby these circulars obligated banks not to apply any fee or commission "under any designation" unless by prior CBK approval, and to post on a special board the fees and commissions deducted from customers, and include these fees and commissions in the credit facilities contracts with customers,

The circular issued on 17 April 2002 to all local banks, investment and exchange companies, and investment funds, requesting these units to take internal measures in regard to the implementation of the provisions of the law N0. 35 for year 2002, concerning combating money-laundering operations, and its explanatory memorandum.

The circular issued to all local banks on 23 April 2002 concerning informing CBK of all fees and commissions charged to customers against the provision of banking and financial services.

The circular issued to all local banks on 9 July 2002, on the need for rules and principles governing the appointment and promotion of employees, and for employee dismissal to be based on the results of an inquiry and due justifications.

The circular issued to all local banks and investment companies on 14 August 2002, prohibiting assigning the assessment of adequacy of internal control systems at the bank or company, or any other technical or consultative work, to audit bureaus that audit the bank or company accounts.

The circular issued to all local banks on 9 October 2002, prohibiting banks from selling any consumer loans portfolios, and other installment loans portfolios, to entities not subject to CBK supervision.

The circular issued to all local banks on 16 October 2002, concerning the standards regulating the relationship between banks and their customers, as that relationship should be based on the highest level of credibility and transparency.

The circular issued to all local banks on 16 October 2002, prohibiting assigning the assessment of adequacy of the bank's internal control systems, and any other technical or consultative work of accounting nature, to companies with economic or legal links to audit bureaus that audit the bank accounts.

The circular issued to all local banks on 22 October 2002 concerning issuing the manual on the duties and responsibilities of the members of Boards of Directors of banks.

The circular issued to all local banks on 3 December 2002 obligating them to carefully scrutinize the purpose for which credit facilities are extended to customers, before releasing these facilities, particularly if they are denominated in foreign currencies, and to monitor customers' uses of these facilities so as to ascertain their application to the purpose they were extended for.

The circular issued to all local banks and the Kuwait Finance House on 17 December 2002, concerning the establishment of a database on the volume of plastic-card operations in the State of Kuwait, including credit cards and debit cards, along with submitting to CBK on a quarterly basis the forms specially prepared for that purpose.

Third: Major Operations Performed by the CBK

1. The average value of currency and coins issued during the fiscal year 2002/03 reached KD 485.2 million, compared with average of KD 439.4 million during the previous fiscal year. The value of issued currency reached its highest during the fiscal year 2002/03 in March 2003 (KD 611.2 million), and its lowest (KD 426 million) in August 2002.

2. The total value of banking sector operations carried out through the CBK Clearing Room during the fiscal year 2002/03 rose above its level during the fiscal year 2001/02, as it reached KD 5442.7 million (an average of KD 3331.6 per transaction), compared with KD 4601 million (an average of KD 2924.6 per transaction) during the previous fiscal year. Meanwhile, settlement operations carried out between banks through the CBK during the fiscal year 2002/03 amounted to KD 51.8 billion with a monthly average of KD 4319.1 million, compared with KD 45.7 billion and a monthly average of KD 3809.5 million during the previous fiscal year.
3. During the fiscal year 2002/03, the CBK processed 8330 banking drafts amounting to KD 483.4 million, compared with 7973 banking drafts valued at KD 480.3 million during the previous fiscal year 2001/02.
4. Within CBK's activity for regulating the levels of liquidity in the domestic economy, the total value of CBK's money market operations during the fiscal year 2002/03 reached KD 17794 million, of which KD 11979.5 million through the auctioning system for accepting deposits from local banks to absorb their liquidity surplus.
5. During the fiscal year 2002/03, the CBK processed foreign banking transactions, on behalf of ministries and governmental institutions, namely documentary credits as well as bills and drafts for collection, as shown in the following table:

Particulars	No.	Value (in KD)
First- Documentary Credits:		
1- <u>Opened:</u>		
-Local	3	4, 006,398/954
-Foreign	95	32, 874,023/439
2- <u>Paid:</u>		
-Local	4	2,361,911/000
-Foreign	231	111,132,361/747
3- <u>Amended:</u>		
-Local	4	
-Foreign	116	
Second- Collection Transactions:		
Bills for Collection		
a- Incoming	27	97,905/172
b- Paid-up	23	36,563/175
Third- Drafts for Collection:		
a- Collected	184	146,766/316
b- Purchased	-	-

Fourth: The Labour Force at the CBK

The CBK continued during the fiscal year 2002/03 its intensive efforts aimed at improving its banking cadres and enhancing their efficiency, along with raising their scientific and professional levels. The CBK took in this regard several measures and decisions during the mentioned fiscal year, most important among which were the following:

1. During the fiscal year 2002/03, nine Kuwaiti graduates (of which 3 holding university degrees and 6 holding the diploma of applied sciences) were accepted as trainees for positions at the CBK. Furthermore, 29 employees were appointed, and 27 Kuwaiti trainees who completed their training programmes were confirmed in their jobs at the CBK, during the fiscal year 2002/03.
2. During the fiscal year 2002/03, the CBK organized 100 specialised training courses in the State of Kuwait in cooperation with domestic training institutions, and sent 350 of its employees to these courses. Furthermore, the CBK sent 102 of its employees to 89 training courses abroad, so as to develop the performance of CBK staff and enhance their scientific and practical levels in line with training needs and work requirements.
3. During the fiscal year 2002/03, the CBK sent 90 of its staff members abroad to attend 45 conferences and meetings held on various topics at the Gulf, Arab and international levels.
4. In cooperation with the Institute of Banking Studies in the State of Kuwait, CBK enrolled several of its employees for the High Diploma in Banking Studies, to upgrade the scientific and functional levels of its staff members. Two staff members obtained that diploma in the fiscal year 2002/03.
5. Within the efforts for developing work in CBK's various units, the organization and functional chart of the Supervision Sector was amended, and newly created positions at CBK were evaluated and filled. Job groups for CBK departments were updated and approved, and the bases for promotion and salary raises for various CBK jobs were revised.

CBK also continued, during the fiscal year 2002/03, its efforts in the development of computer-related activities and programs, so as to enhance the performance of CBK's various departments and offices. Within this context, the fiscal year 2002/03 witnessed the completion of amendments concerning the new general ledger account project, the upgrading of the system for money-market transactions, the amendment of banking supervision forms, the on-line forwarding of local banks' reports, and the development of the system for foreign currency transfers.

Additionally, the fiscal year 2002/03 witnessed the execution of the second phase of the Real-Time Gross Settlement System (RTGS) project, which aims to establish a secure and efficient system for payments settlement between the banking and financial system units. The first phase of the project encompassed a description of the services and system; hardware and software were taken delivery of and installed in the second phase. Furthermore, CBK continued its efforts to develop its infrastructure and protect its computer networks, through the usage of optical-fiber cables, within the endeavor to develop and enhance the efficiency of computer systems and programs used in CBK.

Within its efforts in making available information and data on the economic, monetary and banking developments in the State of Kuwait, the CBK continued during the fiscal year 2002/03 to prepare, publish and distribute its various periodicals (monthly, quarterly) and economic and annual reports in both Arabic and English, while constantly updating its internet homepage and developing its contents.

On another front, during the fiscal year 2002/03, CBK participated in the 8th Job Opportunities Exhibition organized by the Administrative Sciences Faculty at Kuwait University, so as to attract graduate nationals to join in as CBK cadres. Furthermore, CBK continued to hold various activities that strengthen social ties between staff in its various departments and offices.

Fifth :

**The Central Bank of Kuwait Balance Sheet
and Profit & Loss Account for the Fiscal Year Ended
31 March 2003**

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 2003 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 Abdulla Al-Osaimi

Register of Accountants & Auditors

License No. 68 A -

Al-Aiban, Al-Osaimi & Partners

of ERNST & YOUNG

7 May 2003

State of Kuwait

Balance Sheet As On

Assets	Note	31 March 2003	31 March 2002
Gold		31,733,427	31,732,140
Cash, Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions		309,254,045	223,307,147
Deposits and Investments in Foreign Currency	3	1,852,966,240	2,691,733,058
Other Assets	4	5,711,623	23,201,237
		2,199,665,335	2,969,973,582
Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts	10	3,848,438,349	4,120,149,346

31 MARCH 2003 (KD)

Capital and Liabilities	Note	31 March 2003	31 March 2002
Capital - Fully Paid Up		5,000,000	5,000,000
General Reserve Fund	5	179,000,000	179,000,000
Special Account	6	161,280,126	40,243,255
Profit For the Year		26,355,280	39,329,183
Currency Issued	7	589,112,587	472,227,742
Government Accounts		388,135,383	423,013,887
Local Banks' Current Accounts and Deposits with the CBK	8	810,843,291	1,791,887,588
International Institutions		2,359,875	3,491,721
Deposits on Documentary Credits	10	25,404,214	5,283,158
Other Liabilities	9	12,174,579	10,497,048
		2,199,665,335	2,969,973,582
Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts	10	3,848,438,349	4,120,149,346

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

**PROFIT & LOSS ACCOUNT FOR
THE FISCAL YEAR ENDED 31 MARCH 2003
(KD)**

	Note	31 March 2003	31 March 2002
Interest & Income From Investments		68,113,923	98,816,969
Interest and Commission Expenses		<u>(41,799,067)</u>	<u>(48,318,723)</u>
		26,314,856	50,498,246
Other Income	12	<u>13,280,931</u>	<u>91,799</u>
Operating Income		39,595,787	50,590,045
Operating Expenses	11	<u>(13,240,507)</u>	<u>(11,260,862)</u>
Net Profit		<u>26,355,280</u>	<u>39,329,183</u>
Net Profit For the Year shall be disposed of according to Article 17, of Law No. 32 of 1968 and its mendments, as follows:			
to the Government Account	5	13,177,640	39,329,183
to the CBK General Reserve Fund	5	13,177,640	-
		<u>26,355,280</u>	<u>39,329,183</u>

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

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2003

1- Activities:

The Central Bank of Kuwait (CBK), is incorporated in Kuwait by Law No. 32 of 1968 and amendments thereof. The CBK is a public institution with an independent juristic personality, and is entrusted with 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, directing 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) Revenue Recognition:

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

(c) Capital Expenditure:

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

(d) Foreign Currencies:

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

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

	31 March 2003	31 March 2002
Deposits with Foreign Banks and Institutions	1,848,469,540	2,687,121,008
Central Banks facilities to the International Bank for Reconstruction and Development	4,496,700	4,612,050
	<u>1,852,966,240</u>	<u>2,691,733,058</u>

4- Other Assets (KD):

	31 March 2003	31 March 2002
Interest Receivable on Deposits and other Assets	2,204,807	19,127,900
CBK's Share in the Capital of the Industrial Bank of Kuwait	2,511,210	2,511,210
Other Debit Balances	801,676	1,460,151
Prepaid Expenses	105,336	94,501
Advance Payments	88,594	7,475
	5,711,623	23,201,237

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 Fund. In 1985, the Board recommendation to increase 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.

6- Special Account (KD):

	31 March 2003	31 March 2002
Balance at Beginning of the Year	40,243,255	51,158,223
Net Profit (loss) on Foreign Exchange, resulting from revaluation of cash assets and liabilities in foreign currencies	121,036,871	(10,914,968)
Balance at End of the Year	161,280,126	40,243,255

The special account represents the net profits 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.

7- Currency Issued (KD):

	31 March 2003	31 March 2002
Net Currency Produced	957,360,435	955,594,452
Less: Currency in the CBK's Vaults	(368,247,848)	(483,366,710)
	589,112,587	472,227,742

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

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

	31 March 2003	31 March 2002
Current Accounts	97,343,291	120,387,588
Deposits	713,500,000	1,671,500,000
	810,843,291	1,791,887,588

9- Other Liabilities (KD):

	31 March 2003	31 March 2002
Accrued Expenses	2,034,441	3,417,138
Other Credit Balances	10,140,138	7,079,910
	12,174,579	10,497,048

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

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

	31 March 2003	31 March 2002
a- Accounts Managed by the CBK on Behalf of the Government of Kuwait	3,692,165,661	3,897,512,321
b- Contra Accounts:		
Documentary Credits	123,605,918	193,593,600
Memorial Notes and Coins	1,655,353	1,691,201
Forward Transactions on Behalf of the Kuwait Investment Authority	6,032,197	6,191,067
Collections According to the Law No. 41 of 1993	24,979,220	21,161,157
	156,272,688	222,637,025
	3,848,438,349	4,120,149,346

On 31 March 2003, deposits of KD 25,404,214 (against KD 5,283,158 on 31 March 2002) were held against the documentary credits referred to above.

11- Operating Expenses (KD):

	31 March 2003	31 March 2002
Employee Costs	9,926,253	9,405,341
Administrative and Computer Costs	1,109,743	676,498
Purchases of Furniture, Equipment and Vehicle	102,648	66,290
Production and Shipment of Currency	1,069,958	188,790
Sundry Expenses	950,033	923,943
Construction Costs	81,872	-
	13,240,507	11,260,862

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 fiscal year, CBK received partial payments of the approved compensation, which totaled KD 13,183,658 after deduction of the Ministry of Finance 3% share in the compensation.

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

13- Promissory Notes Held:

On 31 March 2003, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 337,910,736 (against KD 386,078,687 on 31 March 2002).

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