

CENTRAL BANK OF KUWAIT

**THE TWENTY EIGHTH
ANNUAL REPORT**

FOR THE FISCAL YEAR 1999/2000

The Annual Report of the Central Bank of Kuwait for the Fiscal Year 1999/2000

INTRODUCTION

During the fiscal year 1999/2000, the Central Bank of Kuwait (CBK) continued to draw and implement its monetary policy aimed at strengthening the monetary stability and enhancing the opportunities for self-generated growth in the domestic economy. Furthermore, the CBK continued during that fiscal year to develop its methods of supervision and oversight of the banking and financial system units, along with rationalizing the credit policy of local banks and investment companies subject to its supervision.

The CBK also endeavoured during the fiscal year 1999/2000 to monitor the local and international economic and monetary developments, along with preparing reports and studies in this regard, so as to contribute to the alignment of the CBK monetary and supervisory policies with these developments, and to enhance the monetary stability in the country and strengthen the domestic banking and financial system.

During the fiscal year 1999/2000, the CBK pursued its efforts for the development of an efficient and secure payment and settlement system in the State of Kuwait, in line with the latest worldwide developments in this regard. Furthermore, the CBK continued during that period its efforts in modernizing its banking information technology so as to contribute to enhancing the performance of its various information systems.

Moreover, the CBK maintained during the fiscal year 1999/2000 its various periodical publications with the purpose of contributing to the enhancement of the transparency of the activities of the banking and financial sector in particular, and that of the domestic economy in general. These publications encompass the Monthly Monetary Statistics, the Quarterly Statistical Bulletin and the Economic Report. Furthermore, the CBK continued to update the issues of these publications it displays on its internet homepage, along with the latest other statistics and information, so as to facilitate access to the main economic, banking and monetary statistics for Kuwait for those interested in using and monitoring

such information.

The fiscal year 1999/2000 also witnessed the fruition of CBK efforts in achieving a smooth transition of computer systems in the banking and financial sector to the year 2000, thereby overcoming the apprehensions in that regard. In this connection, the required adjustments to the software, hardware and applied systems were completed during that fiscal year, and year-2000 simulation tests carried out. Consequently, as the rollover to year 2000 took place, the activities of the banking and financial sector proceeded in an organized pace.

This report provides an outline of the significant domestic monetary and banking developments during the fiscal year 1999/2000, followed by a brief review of the most important measures taken and operations performed by the CBK during that period, then the Auditors Report on the CBK balance sheet statement as on 30 June 2000, and the profit and loss account of its activities for the fiscal year then ended, as follows:

First : The Main Monetary and Banking Developments

1- Monetary Developments:

During the fiscal year 1999/2000, the CBK continued its monitoring of the domestic banking and monetary developments through numerous main monetary and banking aggregates and indicators. This reflects one aspect of CBK's efforts in drawing and implementing the monetary policy and directing the credit policy of banks and domestic investment companies, so as to contribute to the maintenance of monetary stability in the country and strengthening its elements. The following are the most significant monetary developments during the fiscal year 1999/2000:

A- The Domestic Interest Rates:

The CBK is keen to keep the KD interest rates in tune with the developments in the domestic economic conditions and in line with the developments in international interest rates on major currencies. Worthy of note is that since April 1993, the domestic interest rate structure links the maximum limits of interest rates on KD-denominated lending transactions to the discount rate set by CBK within specific margins. As for the interest rates on KD deposits and savings accounts, they are determined since January

1995 according to the interaction of the supply and demand forces and the competition in the market of these deposits.

Within this framework, the CBK continued during the fiscal year 1999/2000 to monitor the developments in domestic interest rates and assess their conformity with the monetary policy objectives. In light of this monitoring, the CBK decided on 17 May 2000 to raise the discount rate by a half percentage point to 7.25% from 6.75%. Worth noting is that during the previous fiscal year 1998/99, the CBK effected two cuts totalling 0.75 percentage point to the discount rate.

Available data on the developments in domestic interest rates show that the interest rates on customer KD deposits with local banks displayed changes reflecting the increase in discount rate. For example, the average interest rates on three-month customer deposits increased by 0.2 percentage point to 5.44% during the fourth quarter of the fiscal year 1999/2000 from 5.24% during the corresponding quarter of the previous fiscal year.

Furthermore, data on the average interest rates on customer deposits with local banks show that the margins between the averages of interest rates on these deposits in KD on the one hand, and in US dollar on the other hand, turned in favour of the US dollar deposits during the fiscal year 1999/2000. These margins reached 0.24 percentage point (between 5.29% and 5.06%) for the one-month term, 0.17 percentage point (between 5.50% and 5.32%) for the three-month term, 0.07 percentage point (between 5.65% and 5.58%) for the six-month term, and 0.15 percentage point (between 5.89% and 5.74%) for the twelve-month term.

On another front, during the fiscal year 1999/2000, the average interest rates on the interbank KD deposits of local banks continued to exhibit a general downward trend from their previous fiscal year levels. For example, data indicate that the average interest rate on the three-month deposits decreased by 0.21 percentage point, from 6.75% during the fiscal year 1998/99 to 6.54% during the fiscal year 1999/2000.

Meanwhile, the average interest rates on the three-month and six-month Kuwaiti Treasury Bills displayed divergence in their developments during the fiscal year 1999/2000; whereby, the average interest rate on the three-month Treasury Bills decreased to 6.34% but rose to 6.73% for the six-month term, compared to 6.44% and 6.60% for these two terms respectively during the previous fiscal year.

B- Money Supply:

Money supply in its broad definition (M2) continued its growth during the fiscal year 1999/2000, reaching KD 7936.5 million at year end compared to KD 7805.1 million at end of the previous fiscal year, i.e. an increase of KD 131.5 million or 1.7%. The largest portion of this increase resulted from the increase of KD 129.6 million (or 9.9%) in Money (the narrow definition of money supply M1) and the slight increase of KD 1.9 million in Quasi-money. This growth in Money reflects the sum of the increase in sight deposits by KD 112.1 million or 11.8% (from KD 946.9 million to KD 1059 million) and currency in circulation by KD 17.5 million or 4.8% (from KD 363.6 million to KD 381.1 million).

As for the components of money supply (M2), the balances of private sector deposits with local banks rose by KD 113.9 million or 1.5% to KD 7555.4 million at end of the fiscal year 1999/2000, compared to KD 7441.5 million at end of the previous fiscal year. This increase was the outcome of the growth of KD 207.5 million or 3.2% in KD deposits (from KD 6484.9 million to KD 6692.4 million) and the decrease of KD 93.6 million or 9.8% in foreign currency deposits (from KD 956.6 million to KD 863 million). The growth in KD deposits was the outcome of developments in the various components of these deposits. On the one hand, the balances of sight deposits increased as mentioned above, along with the increase in time deposits (by KD 175.1 million or 4.2%). On the other hand, the balances of both savings deposits and certificates of deposit decreased by KD 71.3 million (or 5.6%) and KD 8.4 million (or 11.7%), respectively.

Concerning the factors affecting changes in money supply within the aggregate monetary position of the CBK and local banks at end of the fiscal year 1999/2000 compared with the end of the previous fiscal year, the increase in money supply (M2) totalling KD 131.5 million at end of that fiscal year was the outcome of the increase in net foreign assets of these institutions by KD 498.3 million (28.5%) on the one hand, and the decrease in their net domestic assets by KD 366.9 million (or 6.1%) on the other hand. The most significant developments in net foreign assets were the increase in the foreign assets of the CBK (particularly deposits and cash balances) by KD 463.9 million, while the foreign assets of local banks increased by KD 34.4 million. The

decline in net domestic assets occurred despite the increase in claims of local banks on the private sector by KD 381.4 million (most of which in credit facilities). Rather, this decline was contributed to by the decrease of KD 533.7 million in net claims on the government, which resulted mainly from the redemption of a portion of the local banks portfolio of Debt Purchase Bonds (including the Purchase Bonds of the Real Estate Portfolio of the Kuwait Finance House) by KD 411.6 million on the one hand, and the increase in the balances of the government accounts with the CBK by KD 251.9 million on the other.

C- The KD Exchange Rate:

The KD exchange rate maintained its relative stability against the major currencies during the fiscal year 1999/2000, owing to the CBK continued implementation of its policy for setting the KD exchange rate based on a special weighed basket of currencies of countries with major trade and financial relations with the State of Kuwait. This relative stability in the KD exchange rate contributed, over the last twenty-five years, to alleviating the adverse effects of fluctuations in the exchange rates of world currencies on the levels of domestic prices.

Available data indicate that the movements of the US dollar exchange rate against the Kuwaiti dinar remained within a narrow margin during the fiscal year 1999/2000, as the difference between the highest and lowest exchange rates of the US dollar against the Kuwaiti dinar did not exceed 2% or 5.95 fils. Conversely, the US dollar fluctuated against major currencies within broader margins, as the difference between the highest and lowest exchange rates of the US dollar reached 22% against the Euro, 20.4% against the Japanese yen, 18.8% against the Swiss franc and 13.4% against the Sterling pound.

D- Bank Credit:

During the fiscal year 1999/2000, the CBK pursued its supervisory efforts in rationalizing the credit policies of local banks and investment companies, so as to ensure the conformity of their practices with CBK's instructions regarding the rules, principles, controls and procedures regulating the banking and financial activity in the country.

The balances of utilised cash credit facilities extended by local banks to residents in KD

and foreign currencies amounted to KD 5242.3 million at end of the fiscal year 1999/2000, i.e. an increase of KD 317.6 million or 6.4% above their level of KD 4924.7 million at end of the previous fiscal year. The sectoral distribution of these balances indicate that the Personal Facilities were in the forefront (KD 1765.1 million or 33.7% of the total balances, out of which consumer loans amounted to KD 551.2 million or 10.5% of the utilised cash credit facilities), followed by Trade (KD 964.3 million or 18.4%), Real Estate (KD 885.2 million or 16.9%), Construction (KD 430.4 million or 8.2%), Others (KD 425.4 million or 8.1%), Industry (KD 402.3 million or 7.7%), Non-Bank Financial Institutions (KD 357.7 million or 6.8%) and Agriculture and Fishing (KD 11.9 million or 0.2%).

E- Issuing of Public Debt Instruments:

During the fiscal year 1999/2000, the CBK issued -on behalf of the Ministry of Finance- 26 issues of Treasury Bills, of which fourteen issues were of three-month maturity and twelve issues were of six-month maturity, with a total nominal value of KD 1511 million (KD 674 million for the three-month issues and KD 837 million for the six-month issues). Meanwhile, 26 previous issues of these bills with a total nominal value of KD 1458 million matured during the same fiscal year , thus raising the outstanding balance of Treasury Bills by KD 53.1 million (8.7%) to KD 662 million at end of the mentioned fiscal year.

Furthermore, during the fiscal year 1999/2000, the CBK made seventeen issues of Treasury Bonds with a total nominal value of KD 1418 million, of which fourteen issues were for a one-year term at interest rates ranging from 6.5% to 7.375%, and three issues for a two-year term at interest rates ranging from 6.625% to 7.125%. Meanwhile, sixteen previous Treasury Bond issues with a total nominal value of KD 1258.4 million matured. Accordingly, the outstanding balance of Treasury Bonds rose by KD 159.6 million or 9.6% to KD 1818 million at end of the fiscal year 1999/2000 from KD 1658.4 million 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) rose by KD 212.7 million or 9.4% to KD 2480 million at end of the fiscal year 1999/2000 from KD 2267.3 million at end of the previous fiscal year.

2- Banking Developments:

During the fiscal year 1999/2000, local banks pursued their efforts aimed at realising a balanced growth within the framework of their role to attract domestic savings for using them in various investment areas through the extension of bank credit facilities to all sectors of the domestic economy, while abiding by the CBK instructions and regulations concerning the rules and principles for the provision of such facilities.

These efforts resulted in the continued growth of the aggregate balance sheet of local banks^(*) by KD 535.4 million or 4.1% to KD 13582 million at end of the fiscal year 1999/2000, compared to KD 13046.5 million at end of the previous fiscal year. This growth is the outcome of a number of developments in the elements of this balance sheet on both assets and liabilities sides. The following are the most significant among these developments:

- ◆ The rise in claims on the private sector by KD 381.4 million or 7% to KD 5818.9 million at end of the fiscal year 1999/2000, compared to KD 5437.5 million at end of the previous fiscal year. This rise was the outcome of the total increase in both the balances of utilised cash credit facilities extended to the domestic economic sectors by KD 317.6 million or 6.4% (from KD 4924.7 million to KD 5242.3 million) on the one hand, and the other investments of local banks by KD 63.8 million or 12.4% (from KD 512.8 million to KD 576.6 million) on the other. Worth noting is that the rise in claims on the private sector and the increase in both components of these claims, namely cash credit facilities and domestic investments, led to the rise in the relative importance of each of these three elements in the total assets to 42.8%, 38.6% and 4.2% respectively at end of the fiscal year 1999/2000 compared to 41.7%, 37.7% and 3.9% respectively at end of the previous fiscal year.
- ◆ The claims on the government decreased by KD 282.5 million or 6.7% to KD 3934.6 million at end of the fiscal year 1999/2000, compared to KD 4217.1 million at end of the previous fiscal year. This development was the outcome of the increase in the balances of Public Debt Instruments (Treasury Bills and Bonds) by KD 129.1 million or 6.2% (from KD 2082.3 million to KD 2211.4 million), and the decrease in the balances of Debt Purchase Bonds (including Purchase Bonds of the Real

(*) Includes local banks and the Kuwait Finance House.

Estate Portfolio of the Kuwait Finance House) by KD 411.6 million or 19.3% (from KD 2134.9 million to KD 1723.3 million). Accordingly, the relative importance in the total assets decreased for both the total claims on the government and the Debt Purchase Bonds (including the Purchase Bonds of the Real Estate Portfolio) to 29% and 12.7% respectively, but rose for Public Debt Instruments to 16.3% at end of the fiscal year 1999/2000, compared to 32.3%, 16.4% and 16% for these three elements respectively at end of the previous fiscal year.

- ◆ The tangible increase in foreign assets by KD 223.8 million or 13% (from KD 1715.1 million to KD 1938.9 million). Accordingly, the relative importance of foreign assets in the total assets rose to 14.3% at end of the fiscal year 1999/2000 compared to 13.1% at end of the previous fiscal year. Worthy of note is that this rise was the outcome of the increase in the deposits with foreign banks (by KD 117.1 million or 22.2%), credit facilities to non-residents (by KD 115.8 million or 13.8%) and other foreign assets (KD 6.4 million or 21.4%), and the decrease in foreign investments (by KD 15.5 million or 4.8%).
- ◆ The increase in private sector deposits by KD 113.9 million or 1.5% (from KD 7441.5 million to KD 7555.4 million). This increase was the outcome of the increase in KD deposits by KD 207.5 million or 3.2% to KD 6692.4 million at end of the fiscal year 1999/2000 on the one hand, and the decrease in foreign currency deposits by KD 93.6 million or 9.8% to KD 863 million on the other. Worthy of note is that the mentioned increase in KD deposits resulted from the developments in its components as mentioned above.
- ◆ The increase in shareholders' equity by KD 18.8 million or 1.3% to KD 1513.4 million at end of the fiscal year 1999/2000 from KD 1494.7 million at end of the previous fiscal year.
- ◆ The increase in foreign liabilities by KD 189.3 million or 17.2% to KD 1288.9 million at end of the fiscal year 1999/2000. This increase resulted mainly from the increase in non-resident deposits by KD 187.1 million or 17.1%.

Second: Supervisory Instructions and Measures

During the fiscal year 1999/2000, the CBK pursued its efforts aimed at enhancing the methods and tools for supervising and overseeing the banking and financial units subject

to its supervision, along with directing their credit policy by applying several supervisory measures and issuing a number of instructions addressing the activities of these units. Through these measures and instructions, the CBK aims to ensure the abidance of the banking and financial units by the sound professional banking and financial practices, in line with the objective of enhancing the soundness of the banking system through strengthening the monetary stability in the country. In this context, the CBK issued during the fiscal year 1999/2000 a number of decisions and instructions to the banking and financial units subject to its supervision. The following were among the most significant of these decisions and instructions:

1- Instructions Issued to all Banking and Financial Units:

A- The circular issued on 8 December 1999 to local banks, investment companies and exchange companies, and the Kuwait Finance House concerning the requirements for year-2000 compatibility. The circular emphasized the necessity for these banks to test-run their systems on 1/1/2000, so as to preempt any problems likely to arise from the change of date and to endeavour to resolving or alleviating these problems. It also requested that these tests be carried out jointly with the relevant foreign correspondent banks and institutions on 1/1/2000, to ensure a problem-free operation as of the start of business on 2/1/2000. These institutions were also notified that the CBK had set up within its premises an operations room whose objectives included monitoring any events or factors that may adversely affect the continued performance by the banking and financial units of their main functions. Furthermore, the circular emphasized the importance for each of these units to set up an operations room for year 2000, to be manned by the concerned staff on Saturday 1/1/2000 for carrying out the necessary tests and reporting to the CBK the bank's preparedness for the rollover into the year 2000.

B- The circular issued on 15 December 1999 to all local banks and investment companies amending the instructions concerning the purchase by banks and investment companies of their own shares, whereby the amendments prohibited the distribution of cash dividends for shares owned by these banks or companies, and provided for the abidance by the International Accounting Standards with regard to the treatment of all transactions in the mentioned shares, and the method of their entry and disclosure in the financial statements.

2- Instructions Issued to Banking Units:

- A- The circular issued on 12 December 1999 to all local banks concerning the precautionary measures against any problems likely to arise from the change of date to year 2000, and the avoidance of any faults that may result from that change, particularly with regard to banks liquidity. The circular also notified these banks of the CBK preparedness to provide for their liquidity needs in its capacity of lender of last resort, should they face a liquidity problem linked to the change of date to year 2000.
- B- The circular issued on 13 December 1999 obligating all local banks to observe, in the preparation of their closing financial statements for 1999, the disclosure of their dealings with entities other than those related to their published financial statements, such as the members of their Board of Directors and executive staff, with regard to loans, contingent liabilities and claims, credit cards and deposits of these entities, according to the presentation format provided by CBK to these banks and in compliance with the provisions of the International Accounting Standards regarding the disclosure of transactions carried out with connected parties. The circular stipulated the necessity of abiding by CBK's instructions issued on 29/11/1995, which obligated the Boards of Directors of local banks to notify their respective General Assemblies of the balances of credit facilities extended to members of the board, at end of each fiscal year. The circular also obligated banks to separate non-purchased credit facilities existing before the Iraqi invasion (on 1/8/1990) from those facilities extended after that date, along with indicating the total provisions left with banks against the above mentioned credit facilities and those provisions no longer required which are to be transferred to the CBK.
- C- The circular issued on 3 April 2000 to local banks with regard to amending the item "second" of the instructions issued on 20 April 1996 concerning the rules and principles for the extension of consumer loans and other installment loans, as follows:
- * Increasing the maximum limit of consumer loans and other installment loans from 10% to 12% of the total private sector deposits, within the domestic activity of local banks after adding the certificates of deposits and deposits of other financial institutions (excluding investment companies).
 - * Adding 30% of the issued bonds to the stipulated maximum limit.
- D- The circular issued to local banks on 24 May 2000 regarding observance of the code

of practice on the monitoring of risks related to settlement of foreign exchange operations, which was issued in January 2000 by the Committee on Payment and Settlement Systems formed within the Basle Committee for banking supervision. The circular stressed the importance for these banks to ensure the adequacy and efficiency of arrangements concerning the settlements of their foreign exchange operations, so as to secure the soundness of their financial positions and their abidance by adequate liquidity and financial ratios. Furthermore, the circular requested the adoption of mechanisms that assist banks in ensuring the adequacy of systems applied in the management of risks associated with the settlements of their foreign exchange operations, along with appropriately assessing these risks and evaluating the sufficiency of supervisory systems applied to trading in foreign currencies.

E- The circular issued on 25 June 2000 to local banks concerning the International Accounting Standard No. (39) titled “Financial Instruments: Recognition and Measuring” intended to be applied as of 1/1/2001. By virtue of this circular, local banks were instructed to study the effects of the actual application of the mentioned standard on the elements of their financial position and to lay down the necessary conceptions and solutions for an appropriate implementation mechanism in this regard.

3- Instructions Issued to Financial Units:

A- Investment Companies:

A circular was issued on 27 July 1999 to investment companies operating in compliance with the provisions of the Islamic "Sharia", instructing them about the rules and principles to be applied in the classification of their client financing operations according to the Islamic financing formulae, the calculation of provisions for the extended facilities and the treatment of revenues resulting therefrom.

B- Exchange Companies:

A circular was issued on 5 September 1999 to exchange companies concerning the general guidelines manual for the internal control systems of these companies. This manual encompasses instructions on the general requirements for internal control systems in exchange companies and the auditors' reports on these systems.

Third: Major Operations Performed by the CBK

- 1- The monthly average volume of currency and coins issued during the fiscal year 1999/2000 amounted to KD 422.6 million. The volume of issued currency reached its highest level during that fiscal year (KD 536.7 million) in December 1999, and its lowest level (KD 353.5 million) in September 1999.
- 2- The total value of the banking sector operations carried out through the CBK Clearing Room during the fiscal year 1999/2000, compared to the previous fiscal year, decreased to KD 3709.1 million, i.e. an average KD 2387.9 per transaction, from KD 3932 million, i.e. an average KD 2417.6 per transaction during the previous fiscal year. Meanwhile, settlement operations carried out between banks during the fiscal year 1999/2000 amounted to KD 43.3 billion from KD 39.4 billion during the previous fiscal year.
- 3- The CBK continued to process banking drafts during the fiscal year 1999/2000, whereby 8879 banking drafts amounting to KD 429.6 million were processed during that fiscal year, compared to 8892 drafts valued at KD 427.5 million during the previous fiscal year.
- 4- During the fiscal year 1999/2000, the CBK continued issuing public debt instruments - on behalf of the Ministry of Finance - thus making 26 issues of three-month and six-month Treasury Bills valued at KD 1511 million, and seventeen issues of one-year and two-year Treasury Bonds valued at KD 1418 million. Meanwhile, 26 previous Treasury Bill issues valued at KD 1458 million, and sixteen previous Treasury Bond issues valued at KD 1258.4 million matured, as mentioned above.
- 5- The CBK buying and selling transactions with banks and investment companies in the secondary market for Public Debt Instruments during the fiscal year 1999/2000 reached 10 transactions for buying Treasury Bills valued at KD 111.7 million and 15 transactions for selling Treasury Bills valued at KD 109.2 million, while no transactions were carried out for selling or buying Treasury Bonds. On the other hand, the CBK concluded one agreement valued at KD 15 million with the above mentioned institutions for the repurchase of these instruments. Consequently, the value of CBK's buying and selling transactions in the secondary market for Public Debt Instruments, in addition to the value of repurchase operations, totalled KD 235.9 million during the mentioned fiscal year.

- 6- Within CBK's efforts in regulating the domestic liquidity levels in the money market, CBK's operations in that market were concentrated during the fiscal year 1999/2000 in accepting deposits from local banks for a total value of KD 6763.6 million, along with CBK's deposits with these banks for a total value of KD 156.3 million; noting that the values of the above mentioned operations reached KD 2283.6 million and KD 112.5 million respectively, during the previous fiscal year. Furthermore, the CBK continued to apply the deposit scheme through auction in its acceptance of deposits from local banks, whereby the total value of these deposits accepted by the CBK during the fiscal year 1999/2000 reached KD 1091.5 million, compared with KD 499.5 million in the previous fiscal year. At end of the fiscal year 1999/2000, the outstanding balance of these deposits with the CBK reached KD 332.5 million, from KD 94.8 million at end of the previous fiscal year.
- 7- During the fiscal year 1999/2000, the CBK processed foreign banking transactions, on behalf of ministries and government bodies, namely documentary credits as well as bills and drafts for collection, as shown in the following table (value in KD):

| Particulars | No. | Value |
|---|-----|----------------|
| First- Documentary Credits: | | |
| 1- Opened: | | |
| -Local | - | - |
| -Foreign | 96 | 10,366,186/073 |
| 2- Paid: | | |
| -Local | 5 | 1,588,869/445 |
| -Foreign | 176 | 46,068,038/871 |
| 3- Amended: | | |
| -Local | | - |
| -Foreign | 76 | - |
| Second- Collection Transactions: | | |
| Bills for Collection | | |
| - Incoming | 76 | 355,160/207 |
| - Paid-up | 60 | 303,478/854 |
| Third- Drafts for Collection: | | |
| - Collected | 218 | 958,366/103 |
| - Purchased | - | - |

Fourth: The Labour Force at the CBK

The CBK pursued during the fiscal year 1999/2000 its efforts in developing human resources, through continuing to adopt employment and training policies that aim to attract qualified Kuwaitis to join the bank and encourage them to take up work in the local

banking industry. These efforts reflect the CBK sustained endeavours to upgrade the efficiency of staff members, prepare national qualified bankers and increase the percentage of Kuwaiti staff in the total labour force. In addition to the CBK's efforts in upgrading its organizational structure by establishing new sections within some of its offices and departments, preparing and adopting updates for job descriptions, along with introducing new positions and job titles within the efforts to modernize the organizational structure at CBK, numerous developments in manpower occurred at the CBK during the fiscal year 1999/2000, most significant among which were the following:

- 1- The total labour force at the CBK increased to 705 (of which 504 Kuwaitis) at end of the fiscal year 1999/2000, compared to 683 (of which 477 Kuwaitis) at end of the previous fiscal year, reflecting a rise in the percentage of Kuwaitis in the CBK to 71% from 70%, and a decrease in the percentage of expatriates (including unskilled labourers) to 29% from 30%. If unskilled labourers (numbering 62) are excluded from the comparison, the percentage of Kuwaitis reaches 84%. Furthermore, the percentage of Kuwaitis in leadership and supervisory posts at the CBK stood at 91% at the end of the fiscal year 1999/2000.
- 2- During the fiscal year 1999/2000, a total of 72 staff members were appointed at the CBK, of which 68 Kuwaitis (94%). Also, 23 Kuwaiti graduates holding university degrees and fourteen Kuwaiti graduates holding the diploma of applied sciences were accepted as trainees for relevant jobs at the CBK. On the other hand, 20 Kuwaiti trainees were confirmed in the jobs they were nominated for in the CBK departments and offices during that fiscal year. Of those trainees, eleven were accepted in the training programmes for the fiscal year 1998/99; the remaining (nine) were among those accepted for training during the fiscal year 1999/2000.
- 3- Within its endeavours for upgrading the efficiency of its staff members and preparing national banking cadres, the CBK organized during the fiscal year 1999/2000 specialized training courses in cooperation with training institutions in Kuwait and abroad. The CBK sent 52 staff members to 23 specialized training courses organized in cooperation with training institutions in Kuwait, and 49 staff members to 42 specialized training courses at international banking institutions abroad.

With regard to CBK's participation in conferences and meetings held at other countries in the areas of economics, banking, finance, and other areas of relevance to the CBK

activity, 86 of CBK staff members participated in 44 of such official conferences and meetings during the fiscal year 1999/2000.

- 4- Regarding educational and training activities held in cooperation with the Institute of Banking Studies (IBS) in the State of Kuwait during the fiscal year 1999/2000, eight Kuwaiti staff members of the CBK were on IBS enrollment for the two-year high diploma in banking studies, (six of them in the first year and two in the second year). Furthermore, three staff members benefitted from the special educational syllabi presented by the IBS to the banking and financial sector according to the free-selection syllabus system.

As for the specialized banking training courses, English language courses and short courses presented by the IBS, 106 staff members of the CBK were sent to attend 38 of these programmes during the fiscal year 1999/2000.

Fifth :
The Central Bank of Kuwait Balance Sheet
and Profit & Loss Account for the Fiscal Year
Ended 30 June 2000

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 state of affairs of the CBK on 30 June 2000 and of the results of its operations for the year then ended, in compliance with Law No. 32 of 1968 as amended by Decree Law No. 130 of 1977.

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.

Waleed Abdulla Al-Osaimi

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

22 July 2000

State of Kuwait

CENTRAL BANK OF KUWAIT

BALANCE SHEET AS ON

| Assets | Note | 30 June 2000 | 30 June 1999 |
|---|-------------|-------------------------|-------------------------|
| Gold | | 31,732,140 | 31,732,140 |
| Cash, and Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions | | 202,548,552 | 142,259,609 |
| Deposits and Investments in Foreign Currency | 3 | 1,364,957,850 | 961,261,035 |
| Deposits and Loans with Local Banks and Financial Institutions in KD | 4 | 5,559,479 | 5,239,851 |
| Other Assets | 5 | 8,155,023 | 5,202,403 |
| | | 1,612,953,044 | 1,145,695,038 |
| Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts | 11 | 4,461,723,154 | 4,692,099,657 |

30 JUNE 2000 (KD)

| Capital and Liabilities | Note | 30 June 2000 | 30 June 1999 |
|--|-------------|-------------------------|-------------------------|
| Capital - Fully Paid Up | | 5,000,000 | 5,000,000 |
| General Reserve Fund | 6 | 179,000,000 | 179,000,000 |
| Special Account | 7 | 68,466,893 | 97,329,327 |
| Profit For the Year | | 48,505,094 | 36,829,836 |
| Currency Issued | 8 | 442,335,385 | 423,788,385 |
| Government Accounts | | 455,178,732 | 203,230,327 |
| Local Banks' Current Accounts and Deposits with the CBK | 9 | 367,409,764 | 144,266,019 |
| International Institutions | | 2,565,224 | 2,497,611 |
| Deposits on Documentary Credits | 11 | 10,777,795 | 20,496,332 |
| Other Liabilities | 10 | 33,714,157 | 33,257,201 |
| | | 1,612,953,044 | 1,145,695,038 |
| Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts | 11 | 4,461,723,154 | 4,692,099,657 |

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

**PROFIT & LOSS ACCOUNT FOR
THE YEAR ENDED 30 JUNE 2000
(KD)**

| | | 1999/2000 | 1998/99 |
|--|-------------|-------------------------|-------------------------|
| | Note | (Ending 30 June) | (Ending 30 June) |
| Interest & Income From Investments | | 68,401,357 | 51,819,715 |
| Interest and Commission Expenses | | (9,868,055) | (3,922,647) |
| Provision no longer required (against bad debt) | | 660,075 | (392,549) |
| | | 59,193,337 | 47,504,519 |
| Other Income | | 286,709 | 304,025 |
| Operating Income | | 59,480,086 | 47,808,544 |
| Operating Expenses | 12 | 10,974,992 | 10,978,708 |
| Net Profit For the Year to be Transferred to the Ministry of Finance in Accordance with Article 17, paragraph 3 (b), of Law No. 32 of 1968 amended by the Decree Law No. 130 of 1977 | | 48,505,094 | 36,829,836 |

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2000

1- Activities:

The Central Bank of Kuwait (CBK), is incorporated in Kuwait by Law No. 32 of 1968 as amended by Decree Law No. 130 of 1977. The CBK is a public institution with an independent juristic personality, and is entrusted with the issue of the local currency on behalf of the State of Kuwait, the security of the stability of the Kuwaiti currency and its free convertibility into other currencies, directing the monetary and credit policies, the supervision of the banking and financial system and 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 as amended by the Decree Law No. 130 of 1977. The applied significant accounting policies are as follows:

(a) Gold:

In accordance with the Amiri Decree of 9 July 1978, gold is valued at KD 12.500 per fine ounce.

(b) Long-term Investments: Long-term investments which comprise bonds of foreign governments and Kuwaiti Dinar local bonds are stated at cost, adjusted for any premium or discount as appropriate, with provision for any permanent decline in value on an individual basis.

(c) Revenue Recognition:

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

(d) Capital Expenditure:

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

(e) Foreign Currencies:

In accordance with Article 48 of Law No. 32 of 1968 amended by the Decree Law No. 130 of 1977, and the Amiri Decree of 9 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 a special account.

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

| | 30 June 2000 | 30 June 1999 |
|--|-----------------------------|---------------------------|
| Deposits with Foreign Banks and Institutions | 1,360,364,700 | 956,662,335 |
| Bonds of Foreign Governments | 4,593,150 | 4,598,700 |
| | <u>1,364,957,850</u> | <u>961,261,035</u> |

4- Deposits & Loans in KD with Local Banks and Financial Institutions (KD):

| | 30 June 2000 | 30 June 1999 |
|-----------------------------|-------------------------|-------------------------|
| Loan | 6,144,252 | 6,484,699 |
| Provision for Doubtful Debt | (584,773) | (1,244,848) |
| | <u>5,559,479</u> | <u>5,239,851</u> |

5- Other Assets (KD):

| | 30 June | 30 June |
|---|------------------|------------------|
| | 2000 | 1999 |
| Interest Receivable on Deposits and other Assets | 4,134,984 | 1,469,390 |
| CBK's Share in the Capital of the Industrial Bank of Kuwait | 2,511,210 | 2,511,210 |
| Other Debit Balances | 1,214,009 | 883,643 |
| Prepaid Expenses | 294,820 | 338,160 |
| | 8,155,023 | 5,202,403 |

6- General Reserve Fund:

In accordance with Article 17, paragraphs 3(a) and (b), of Law No. 32 of 1968 (as amended by the Decree Law No. 130 of 1977) 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.

7- Special Account (KD):

| | 30 June | 30 June |
|---|-------------------|-------------------|
| | 2000 | 1999 |
| Balance at Beginning of the Year | 97,329,327 | 110,738,780 |
| Net loss on Foreign Exchange, resulting from revaluation of cash assets and liabilities in foreign currencies | (28,862,434) | (13,409,453) |
| Balance at End of the Year | 68,466,893 | 97,329,327 |

The special account represents the net profit accumulated as a result of revaluation of 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 amended by the Decree Law No. 130 of 1977, and the Amiri Decree of 9 July 1978.

8- Currency Issued (KD):

| | 30 June | 30 June |
|-------------------------------------|--------------------|--------------------|
| | 2000 | 1999 |
| Net Currency Produced | 908,046,378 | 999,402,256 |
| Less : Currency in the CBK's Vaults | 465,710,993 | 575,613,871 |
| | 442,335,385 | 423,788,385 |

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

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

| | 30 June | 30 June |
|------------------|--------------------|--------------------|
| | 2000 | 1999 |
| Current Accounts | 34,909,764 | 49,516,019 |
| Deposits | 332,500,000 | 94,750,000 |
| | 367,409,764 | 144,266,019 |

10- Other Liabilities (KD):

| | 30 June | 30 June |
|-----------------------|-------------------|-------------------|
| | 2000 | 1999 |
| Accrued Expenses | 1,312,584 | 922,692 |
| Other Credit Balances | 32,401,573 | 32,334,509 |
| | 33,714,157 | 33,257,201 |

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

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

| | 30 June 2000 | 30 June 1999 |
|---|-----------------------------|-----------------------------|
| Accounts Managed by the CBK on Behalf of the Government of Kuwait | 4,393,778,583 | 4,586,019,873 |
| Contra Accounts: | | |
| Documentary Credits | 32,629,895 | 73,449,912 |
| Memorial Notes and Coins | 1,319,678 | 1,321,080 |
| Forward Transactions on Behalf of the Kuwait Investment Authority | 6,148,415 | 6,151,421 |
| Collections According to the Law No. 41 of 1993 | 27,836,583 | 25,157,371 |
| | <u>67,934,571</u> | <u>106,079,784</u> |
| | <u>4,461,723,154</u> | <u>4,692,099,657</u> |

On 30 June 2000, deposits of KD 10,777,795 (against KD 20,496,332 on 30 June 1999) were held against the documentary credits referred to above.

12- Operating Expenses (KD):

| | 30 June 2000 | 30 June 1999 |
|--|-------------------------|-------------------------|
| Employee Costs | 8,869,690 | 8,600,020 |
| Administrative and Computer Costs | 821,085 | 680,826 |
| Purchases of Furniture, Equipment and Vehicles | 150,580 | 147,758 |
| Production and Shipment of Currency | 101,081 | 554,897 |
| Sundry Expenses | 1,032,556 | 995,207 |
| | <u>10,974,992</u> | <u>10,978,708</u> |

13- Compensation Claims:

The CBK has submitted a compensation claim amounting to KD 73,132,296 to the Public Authority for the Assessment of Compensation for losses suffered as a result of the Iraqi invasion and occupation of the State of Kuwait.

14- Promissory Notes Held:

On 30 June 2000, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 454,766,438 (against KD 483,390,121 on 30 June 1999).

| Contents | Page |
|-----------------|-------------|
|-----------------|-------------|

| | |
|--|----|
| Introduction | 9 |
| First : The Main Monetary and Banking Developments | 10 |
| 1 - Monetary Developments | 10 |
| 2 - Banking Developments | 14 |
| Second : Supervisory Instructions and Measures | 16 |
| Third : Major Operations Performed by the CBK | 19 |
| Fourth : The Labour Force at the CBK | 21 |
| Fifth : The Central Bank of Kuwait Balance Sheet and Profit & Loss Account for the Fiscal Year Ended 30 June 2000 | 25 |
| - Report of the Auditors | 27 |
| - Balance Sheet..... | 28 |
| Assets..... | 28 |
| Capital and Liabilities | 29 |
| - Profit & Loss Account..... | 30 |
| - Notes to the Financial Statements | 31 |