

**CENTRAL BANK OF KUWAIT**

**THE TWENTY FIFTH  
ANNUAL REPORT**

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**FOR THE FISCAL YEAR 1996/97**

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# **The Annual Report of the Central Bank of Kuwait for the Fiscal Year 1996/97**

## **INTRODUCTION**

During the fiscal year 1996/97, the Central Bank of Kuwait (CBK) pursued its efforts in drawing and implementing the monetary policy, along with enhancing its tools and methods for overseeing and supervising the banking and financial system units, as well as directing and rationalizing the credit policy of banks and investment companies subject to its supervision. These efforts, which focused on strengthening the monetary stability in the country so as to enhance the elements and opportunities for self-generated growth in the domestic economy, were in line with both the general economic policy objectives and the promotion of economic development and structural adjustment of the economy.

The CBK also continued to follow up the economic and monetary developments on both local and international scenes, along with preparing the necessary reports and studies in order to assess the directions of these developments and the changes occurring thereto, analyzing their impact on the local monetary and banking conditions in particular and the economic conditions in general, and consequently drawing and implementing appropriate policies and measures for addressing these developments as may serve the interest of the domestic economy.

Within its role as a financial and economic advisor to the government, the CBK provided advice on economic and financial issues as assigned by the government, as well as issues it deemed of particular importance and hence took the initiative to advise on. Furthermore, the CBK contributed to the preparation of studies and drafts setting new banking and financial legislations or amending current ones. In this regard, the CBK prepared during the fiscal year 1996/97 a draft law concerning banks operating according to the Islamic Shari'ah.

The CBK's continual endeavours to enhance its database, as well as its monetary, banking and financial statistics, are exemplified in the numerous adjustments effected since July 1995 (the beginning of the previous fiscal year), to the presentation, coverage and composition of the data reported in the tables of its periodical statistical publications, along with the concepts and definitions underlying these data. Most salient among these developments was expanding the concept of local banks to encompass commercial and specialized banks in addition to the Kuwait Finance House. This, in turn, led to a broader approach in measuring money supply

(M2) which now encompasses currency in circulation in addition to private sector deposits with commercial and specialized banks and the Kuwait Finance House. i.e. private sector deposits with local banks according to the above mentioned expanded concept. Furthermore, a broader concept was adopted for money supply (M3) which includes money supply (M2) in addition to the private sector deposits with non-bank deposit-taking financial institutions, namely investment companies that accept deposits by virtue of their articles of association. In this regard, the CBK undertook during the fiscal year 1996/97 to expand the span of the time series of the upgraded data to fifteen years from January 1982 to December 1996, a period fraught with economic developments of much significance to the national economy. Thus, the CBK published a special issue of the “Monthly Monetary Statistics” for December 1996, encompassing the above mentioned time series, so as to allow researchers and all those concerned in the State of Kuwait and abroad to benefit from a documented follow-up of the developments in the country’s banking and financial system.

Worthy of note is that the CBK endeavours to keep abreast with worldwide developments in information technology and systems and their corresponding applications, along with following the international trends with regard to providing the concerned users with broader access to economic monetary and banking data through the fastest and most efficient available means.

Therefore, the CBK has set up during the fiscal year 1996/97 a home-page on the Internet which will be updated continually. The home-page encompasses the law No. 32 of the year 1968 concerning currency, the Central Bank of Kuwait and the organization of banking business, along with CBK’s periodical publications, namely the “Monthly Monetary Statistics”, and the Quarterly Statistical Bulletin”. Additionally, it provides the facility of electronic communication with other monetary, banking and finance institutions.

This report provides an outline of the significant domestic monetary and banking developments during the fiscal year 1996/97, 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 1997, 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:**

Within its efforts in drawing and implementing the monetary policy and directing the credit policy of banks and domestic investment companies so as to maintain the monetary stability in the country, the CBK carries out a continual follow-up of the domestic monetary and banking developments through a number of main monetary and banking aggregates and indicators. The following are among the most significant monetary developments during the fiscal year 1996/97:

### **A- The Domestic Interest Rates:**

In furtherance of the monetary stability in the country, the CBK is keen to keep the KD interest rates both in line with the developments in international interest rates on major currencies, and consonant with the requirements of the domestic economic conditions. Consequently, the CBK continued during the fiscal year 1996/97 to monitor the developments in domestic interest rates and assess their conformity with the monetary policy objectives. In light of these developments, the CBK found no need for any adjustment to the discount rate, thus keeping it unchanged at its level of 7.25% since it was last amended on 17 April 1995.

It is noteworthy that the domestic interest rates structure links the maximum limits of interest rates on KD lending transactions to the discount rate within specific margins (which remained unchanged since their application on 25 April 1993). By virtue of the CBK decision on 30 January 1995, the floor of interest rates on KD deposits and savings accounts was abrogated and their determination was left to the interaction of supply and demand forces, as well as competition in the market of these deposits.

Available data on the developments in domestic interest rates show that the interest rates on customer KD deposits with local banks tended to decline during all quarters of the fiscal year 1996/97. For example, the average interest rates on three-month deposits decreased to 6.40% during the fourth quarter of the fiscal year 1996/97 from 6.56% during the corresponding quarter of the previous fiscal year, i.e. by 0.16 percentage point. This development reflects the availability of financial resources with local banks, as a result of the decrease in the balances of their holdings of the public debt instruments. This, in turn, allowed local banks

to use these financial resources for expanding the credit facilities extended to the sectors of the domestic economy.

Although the average interest rates on the interbank KD deposits of local banks during the fiscal year 1996/97 remained stable in general, they displayed a mixed performance exemplified in a relative decrease in average interest rates on the short-term deposits up to one month, a slight decrease of up to 0.01 percentage point in the average interest rate on three-month deposits (from 7.02% to 7.01%), then a relative increase in the average interest rates on longer term deposits (six-month, nine-month and twelve-month) during the fourth quarter of the fiscal year 1996/97, compared to the corresponding quarter of the previous fiscal year.

The average interest rates on the three-month and six-month Kuwaiti Treasury Bills decreased to 6.96% and 7.14% respectively during the fiscal year 1996/97, from 7.17% and 7.35% respectively during the previous fiscal year.

## **B- Money Supply:**

Data show that money supply in its broad definition (M2) stood at KD 7663.3 million at end of the fiscal year 1996/97, i.e. a growth of KD 283.1 million or 3.8% compared to its level of KD 7380.2 million at end of the previous fiscal year. The largest portion of this growth resulted from a substantial increase in Money (the narrow definition of money supply M1) which reached KD 226.7 million or 19.5%, in addition to a lesser increase in Quasi-money by KD 56.4 million (0.9%). This increase in Money (M1) is totally attributable to the tangible increase in sight deposits (within the private sector deposits with local banks) which reached KD 232.4 million (28.9%). Meanwhile, currency in circulation decreased slightly by not more than KD 5.7 million or 1.6% (from KD 361.5 million to KD 355.8 million).

As for money supply components, the balances of private sector deposits with local banks amounted to KD 7307.5 million at end of the fiscal year 1996/97, i.e. an increase of KD 288.9 million or 4.1%, compared to its level of KD 7018.6 million at end of the previous fiscal year. This increase is the outcome of the growth in KD deposits by KD 352.8 million or 6.2% (from KD 5676.6 million to KD 6029.4 million) and the decrease in foreign currency deposits by KD 63.9 million or 4.8% (from KD 1342 million to KD 1278.1

million). The growth in KD deposits was the outcome of the increase in all elements of these deposits without exception, as sight deposits increased -as mentioned above- along with the increase in savings deposits (KD 57.1 million or 5.3%), time deposits (KD 61.8 million or 1.6%) and certificates of deposit (KD 1.4 million or 13.1%).

Concerning the factors affecting changes in money supply within the aggregate monetary position of the CBK and the local banks at end of the fiscal year 1996/97, the above mentioned growth in money supply (M2) totalling KD 283.1 million was the outcome of the rise in net domestic assets of these institutions by KD 363.7 million on the one hand, and the decrease in their net foreign assets by KD 80.6 million on the other hand. The most significant developments in net domestic assets was the marked increase in the claims of local banks on the private sector (most of which in credit facilities) by KD 915.7 million, and the substantial decrease in claims on the government by KD 606.6 million. This decrease resulted from the redemption of a portion of the local banks portfolio of Debt Purchase Bonds together with the Purchase Bonds of the Real Estate Portfolio of the Kuwait Finance House, in addition to the decrease in the holdings of these banks of Public Debt Instruments. The decrease in net foreign assets was the outcome of the decrease in net foreign assets of the CBK by KD 132 million, and the increase in net foreign assets of local banks by KD 51.4 million.

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

The KD exchange rate against the US dollar during the fiscal year 1996/97, compared to the exchange rates of major currencies, was characterized by a more pronounced relative stability than during the previous fiscal year. This development was the upshot of the CBK continued implementation of the KD exchange rate policy based on tying the KD exchange rate to a special basket of currencies of countries with major trade and financial relations with the State of Kuwait. Throughout more than twenty-two years of application, this policy proved its effectiveness in maintaining the relative stability of the KD exchange rate against the major currencies, thereby contributing to alleviating the pressure on domestic prices caused by imported inflation.

The relative stability in the KD exchange rate during the fiscal year 1996/97 is concluded from comparing the movements of the US dollar exchange rate against the Kuwaiti dinar on

the one hand, and against the major currencies on the other hand. This comparison shows that the movements of the US dollar exchange rate against the Kuwaiti dinar were within very narrow margins, as the highest and lowest exchange rates of the US dollar against the dinar did not exceed 0.40% and 0.59% during the fiscal year 1996/97. Meanwhile, the US dollar fluctuated by much higher rates against other major currencies, as the highest and lowest exchange rates of the US dollar against these currencies reached, for example, 6.44% and 7.90% against the Japanese yen, 6.42% and 4.29% against the Swiss franc, 6.39% and 3.20% against the Deutsche mark, 6.37% and 3.09% against the French franc, and 4.87% and 4.36% against the Sterling pound.

#### **D- Bank Credit:**

During the fiscal year 1996/97, the CBK pursued its supervisory efforts in guiding and rationalizing the credit policies of banks and investment companies, so as to ensure their abidance by the CBK instructions regarding the rules, principles, controls and procedures for extending credit facilities.

The following table shows the value of KD-denominated credit facilities (including consumer loans) extended by local banks to residents at end of the fiscal year 1996/97 compared to the previous fiscal year, and their relative distribution by sector. These agreements reflect the limits of KD credit facilities extended to new clients or the increase in the limits of credit facilities extended to existing ones.

<b>Particulars</b>	<b>1996/97</b>		<b>1995/96</b>	
	<b>Value</b>	<b>Relative</b>	<b>Value</b>	<b>Relative</b>
	<b>(Million</b>	<b>Importanc</b>	<b>(Million</b>	<b>Importanc</b>
	<b>)</b>	<b>(%)</b>	<b>)</b>	<b>(%)</b>
<b>Total Extended Credit</b>	<b>2678</b>	<b>100.0</b>	<b>2192</b>	<b>100.0</b>
Personal Facilities	584	21.8	489	22.3
Trade	563	21	517	23.6
Consumer Loans	351	13.1	536	24.5
Real Estate	350	13.1	130	5.9
Construction	268	10	167	7.6
Industry	155	5.8	141	6.4
Others	407	15.2	212	9.7

As highlighted in that table, the KD credit facilities extended to residents during the fiscal year 1996/97 totalled KD 2678 million, i.e. an increase of KD 486 million or 22.2%,

compared to KD 2192 million during the previous fiscal year. Personal facilities came in the forefront of the sectors benefiting from this increase (KD 584 million or 21.8%), followed by trade (KD 563 million or 21%), consumer loans (KD 351 million or 13.1%), real estate (KD 350 million or 13.1%), construction (KD 268 million or 10%), industry (KD 155 million or 5.8%), and the “Others” sector (KD 407 million or 15.2%).

It is noted that the value of personal facilities -including facilities extended to finance trading in securities- rose over their previous fiscal year level by 19.4%, which reflects a clear expansion in the extension of these facilities. Consequently, the CBK issued on 10/4/1997 instructions stipulating that all personal facilities should be in the form of time loans. It also issued instructions on 27/5/1997, most significant among which were the controls applied to the extension of new credit facilities for the purpose of trading on the Kuwait Stock Exchange. These instructions also provided for taking necessary measures to reduce the outstanding balances of the used portions of these facilities as on the date of issuing these instructions, so that by end of 1997 at most such balances do not exceed the lesser of 10% of the value of the portfolio of credit facilities extended to residents or 25% of the bank’s capital in its broad definition, in addition to suspending the extension of margin lending facilities. On another front, the value of consumer loans extended during the fiscal year 1996/97 decreased below its previous fiscal year level. In this regard, the CBK issued on 10 April 1997 a circular amending the maximum time limit allowed for the repayment of these loans to three years instead of two.

The balances of utilized cash credit facilities extended to residents totalled KD 3649.2 million at the end of the fiscal year 1996/97, compared to KD 2740.7 million at end of the previous fiscal year, i.e. an increase of KD 908.5 million or 33.1%. As for the sectoral distribution of these balances, personal facilities came first (KD 1629.9 million or 44.7%, out of which consumer loans amounted to KD 525.2 million or 14.4% of the total), followed by trade (KD 574.7 million or 15.7%) real estate (KD 527.7 million or 14.5%), industry (KD 302.3 million or 8.3%), construction (KD 230.1 million or 6.3%), non-bank financial institutions (KD 196.5 million or 5.4%), “Others” sector (KD 177 million or 4.9%) and, finally, the agriculture and fisheries sector (KD 11 million or 0.3%).

#### **E- Issuing Public Debt Instrument:**



During the fiscal year 1996/97, the CBK issued -on behalf of the Ministry of Finance- 41 issues of three-month and six-month Treasury Bills with a total nominal value of KD 2715.6 million. Meanwhile, 49 issues of these bills valued at KD 3066.6 million matured during the same year. Thus, the outstanding balance of Treasury Bills fell by KD 351 million (22.1%) to a nominal value of KD 1237.5 million at end of the fiscal year 1996/97.

Furthermore, the CBK made fourteen issues of one-year, two-year and three-year term Treasury Bonds totalling KD 1145.4 million during the same fiscal year, with an interest rate of 7.25% for the one-year term, 7.375% for the two year-term and 7.5% for the three-year term. Meanwhile, nine previous Treasury Bond issues of a nominal value of KD 1104 million matured, bringing the outstanding balance of Treasury Bonds to KD 1145.4 million, i.e. an increase of KD 41.4 million or 3.8%.

As a result of the above developments, the outstanding balance of public debt instruments (Treasury Bills and Bonds) fell to KD 2382.9 million at end of the fiscal year 1996/97, i.e. a decrease of KD 309.6 million or 11.5% below its level of KD 2692.5 million at end of the previous fiscal year.

## **2- Banking Developments:**

During the fiscal year 1996/97, local banks continued strengthening their structures, in terms of relying on more developed professional bases with regard to sources and uses of funds, so as to embark upon a new stage of sustainable balanced growth. The characteristics of this professional structure are clearly evidenced in the direction taken by these banks for the sustained enhancement of their financing role in the domestic economy through the extension of bank credit 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 and aiming to rationalize the credit policies of these banks.

Available data show that the aggregate balance sheet of local banks amounted to KD 11944.2 million at end of the fiscal year 1996/97, thus recording a marked growth of KD 750 million or 6.3%, compared to its level of KD 11194.2 million at end of the previous fiscal year. This growth is attributable to a number of developments in the elements of this balance sheet on

both sides of assets and liabilities. The following are the most significant among these developments:

- ◆ The marked rise in claims on the private sector by KD 915.6 million or 30.2% to KD 3952.3 million at end of the fiscal year 1996/97, compared to KD 3036.7 million at end of the previous fiscal year. This rise resulted from the total increase in both the balances of utilized cash credit facilities extended to the domestic economic sectors by KD 908.5 million or 33.1% (from KD 2740.7 million to KD 3649.2 million) and the investments of local banks in local shares and bonds by KD 7.1 million (2.4%). Worthy of note is that the increase in cash credit facilities led to the rise in their relative importance in the total assets to 30.5% at end of the fiscal year 1996/97 compared to 24.5% at end of the previous fiscal year.
  
- ◆ The substantial decrease in claims on the government by KD 611.6 million or 12.1% to KD 4428.9 million at end of the fiscal year 1996/97, compared to KD 5040.5 million at end of the previous fiscal year. This decrease resulted from the decrease in the balances of both Debt Purchase Bonds and Purchase Bonds of the Real Estate Portfolio of the Kuwait Finance House, together by KD 474.9 million or 15.1% (from KD 3142.1 million to KD 2667.2 million) on the one hand, along with the decrease in the balances of Public Debt Instruments (Treasury Bills and Bonds) by KD 136.7 million or 7.2% (from KD 1898.4 million to KD 1761.6 million) on the other hand. Accordingly, the relative importance of the total claims on the government, the Debt Purchase Bonds together with Purchase Bonds of the Real Estate Portfolio, and the Public Debt Instruments in the total assets decreased to 37.1%, 22.3% and 14.7% respectively at end of the fiscal year 1996/97, from 45%, 28.1% and 17% respectively at end of the previous fiscal year.
  
- ◆ The increase in foreign assets by KD 171.6 million or 8.4% to KD 2204.4 million from KD 2032.8 million. This increase was the outcome of the rise in both the foreign currency-denominated credit facilities extended to non-residents (by KD 140.2 million or 21.3%), and foreign investments (KD 54.2 million or 12.4%) one the one hand, and the decrease in both the deposits with foreign banks (KD 11.7 million or 1.6%) and the KD-denominated portion of credit facilities extended to non-residents (KD 11.1 million or 6%) on the other hand.

- ◆ The growth in private sector deposits with local banks by KD 288.9 million or 4.1% (from KD 7018.6 million to KD 7307.5 million). This growth is the outcome of the increase in KD-deposits by KD 352.8 million or 6.2% (from KD 5676.6 million to KD 6029.4 million) on the one hand, and the decrease in foreign currency deposits by KD 63.9 million or 4.8% (from KD 1342 million to KD 1278.1 million) on the other hand. The above mentioned increase in KD deposits represents the sum of the increase in all elements of these deposits without exception, namely sight deposits (KD 232.4 million or 28.9%), savings deposits (KD 57.1 million or 5.3%), time deposits (KD 61.8 million or 1.6%) and certificates of deposit (KD 1.4 million or 13%).
  
- ◆ The increase in shareholders' equity by KD 72.3 million or 5.9% to KD 1294.7 million at end of the fiscal year 1996/97 against KD 1222.4 million at end of the previous fiscal year.
  
- ◆ The rise in foreign liabilities by KD 120.1 million or 18% (from KD 666.6 million to KD 786.7 million), which was almost totally concentrated in the increase in foreign banks deposits with local banks by KD 112.6 million or 18.8%.

## **Second: Significant Measures Taken and Supervisory Instructions Issued by the CBK**

During the fiscal year 1996/97, the CBK continued to take measures and issue instructions as needed in enhancing the tools and methods for overseeing and supervising the banking and financial units subject to its supervision, along with directing the credit policy of such units, so as to ensure their abidance by the sound professional banking and financial practices in conformity with the objectives of the monetary policy regarding the achievement of the monetary stability in the country. In this regard, the CBK was keen on keeping these measures and instructions consonant with its efforts in regulating the levels of domestic liquidity and in maintaining the relative stability of the KD exchange rate against major currencies and the domestic interest rates on the dinar. In this context, the CBK issued a number of decisions and instructions to the banking and financial units subject to its supervision. The following are among the most significant of these decisions and instructions:

- 1- The circular issued on 5 September 1996 with regard to rationalizing and organizing the credit policy of banks. This circular provides for raising the minimum limit of both the time loans and loans extended in the form of discounted commercial papers denominated in Kuwaiti dinar to 75% from 60% of the total cash facilities denominated in Kuwaiti dinar. The circular is in furtherance of the objectives pursued by the CBK through its instructions issued in 1993 for the rationalization and regulation of banks credit policy. These objectives are those of directing the credit policy to support economic growth, promote the participation of effectual economic sectors in the economic development process, and curb the expansion in non-productive economic activities.
- 2- The general guidelines issued on 12 November 1996 for the internal control systems of banks and the external auditors reports regarding the evaluation of these systems. These guidelines aim to highlight the CBK requirements with regard to the records and internal control systems to be complied with by local banks, so as to assist them in establishing and applying sound internal control systems, as well as to define the elements of the relevant reports required from the external auditors entrusted by local banks with evaluating the adequacy of these systems.
- 3- The circular issued on 18 December 1996 to banks and investment companies with regard to rules and regulations for classifying credit facilities and calculating their provisions, and the means of treating the revenues resulting therefrom. Accordingly, substantial amendments were introduced to the instructions applied in this regard since 1985, thereby allowing the managements of banks and their external auditors to evaluate the credit risks against which provisions should be made.
- 4- The circular issued on 9 March 1997 to the banking and financial units regarding instructions regulating the management of investment portfolios on behalf of third parties, with the purpose of streamlining the activity of the banking and financial units in this area, in light of the qualitative developments witnessed in the financial markets both locally and worldwide.
- 5- The circular issued on 9 March 1997 to investment companies amending the instructions issued by the CBK on 2 January 1994 with regard to rationalizing and regulating the credit policy of investment companies. This amendment provided that all credit facilities

denominated in Kuwaiti dinar or foreign currency, and extended by investment companies to their clients according to their articles of associations, should be time loans.

6- The circular issued on 10 April 1997 to all local banks concerning the CBK instructions setting the minimum requirement for the capital adequacy standard for local banks at 12% (from 8%), effective end of December 1997. This standard is calculated for each bank on the basis of its aggregate financial statement encompassing the head office, local and foreign branches, and subsidiary companies carrying out similar activities.

7- The circular issued on 10 April 1997 concerning the controls and instructions for dealing with credit cards issued by local banks.

8- The circular issued on 10 April 1997 amending the maximum repayment period of consumer loans to three years (instead of two).

9- The circular issued on 10 April 1997 with regard to rationalizing and regulating the credit policy of banks, whereby the CBK decided that all personal loans should be in the form of time loans, except for the margin loans extended for the purchase of securities.

10- The circular issued on 14 May 1997 to investment companies within the framework of monitoring the application by the banking and financial system units of the credit policy, and in furtherance of the objectives pursued through the CBK instructions with regard to rationalizing and regulating the credit policy of investment companies, namely directing the extension of credit facilities to the service of both public interest and the economy in general. The circular suspended further extension by investment companies of new credit facilities to their clients for financing the purchase of securities.

11- The circular issued on 15 May 1997 to local banks concerning the CBK instructions for rationalizing and regulating the credit policy of banks. This circular stipulates that local banks should apply all necessary measures to verify the purpose of extended credit facilities as mentioned in the relevant contracts with their clients, and to ensure that these facilities are used for their designated purposes.

- 12- The circular issued on 27 May 1997 to all local banks concerning instructions with immediate effect regarding the credit facilities extended by banks for financing trading in securities and other purposes. Among the most significant of these instructions was suspending the extension of any new credit facilities for trading on the Kuwait Stock Exchange, except for the purpose of purchasing government-owned shares in certain Kuwaiti companies. These instructions also provided for taking necessary measures to reduce the outstanding balances of the used portions of these facilities as on the date of issuing these instructions, so that by end of 1997 -at most- such balances do not exceed the lesser of 10% of the total value of the portfolio of credit facilities extended to residents or 25% of the bank's capital in its broad definition. It was also decided to suspend the extension of margin lending facilities and to cancel the unused portions thereof as of the date of issue of these instructions, as well as to schedule the gradual collection of outstanding debts resulting from the extension of the above facilities, so as to secure their full settlement on maturity dates.
- 13- The circular issued on 27 May 1997 to local banks amending the instructions regarding the capital adequacy standard, by including the conditions to be satisfied in evaluating fixed assets and long-term financial investments, as well as in defining the discount factor applicable to the reevaluation reserve.
- 14- The instructions issued on 4 June 1997 concerning the conditions of appointment and terms of reference of the Shari'ah Supervisory Board in Islamic investment companies which operate according to the provisions of the Islamic Shari'ah.
- 15- The circular issued on 26 May 1997 to local banks concerning the reliance on scientific and practical principles and controls in the risk assessment and management system, along with the establishment of a relevant specialized unit equipped with the needed capabilities and competencies for the fulfillment of its mandate.

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

- 1- The monthly average volume of currency and coins issued during the fiscal year 1996/97 amounted KD 404 million. The volume of issued currency reached its highest level during

that fiscal year (KD 439.3 million) at end of February 1997, and its lowest level (KD 376.7 million) at end of August 1996.

2- The total value of the banking sector operations carried out through the CBK Clearing Room during the fiscal year 1996/97 remained almost stable at its previous fiscal year level, as it reached KD 4.6 billion, i.e. an average KD 2612 per transaction, compared to KD 4.7 billion, i.e. an average of KD 2727.2 per transaction during the fiscal year 1995/96.

3- During the fiscal year 1996/97, the CBK processed 8680 banking drafts amounting to KD 602.4 million compared to 9982 drafts valued at KD 899.2 million during the previous fiscal year.

4- During the fiscal year 1996/97, the CBK continued issuing public debt instruments -on behalf of the Ministry of Finance - thus making 41 issues of three-month and six-month Treasury Bills valued at KD 2715.6 million, and fourteen issues of one-year, two-year and three-year Treasury Bonds valued together at KD 1145.4 million. Meanwhile, 49 Treasury Bill issues valued at KD 3066.6 million, and nine Treasury Bond issues valued at KD 1104 million matured during the same fiscal year, 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 1996/97 reached 52 transactions for buying Treasury Bills valued at KD 530.3 million, 83 transactions for selling Treasury Bills valued at KD 472.6 million, 33 transactions for buying Treasury Bonds valued at KD 437.5 million, and one transaction for selling Treasury Bonds valued at KD 20 million. Furthermore, the CBK concluded 157 agreements valued at KD 996.3 million with the above mentioned institutions for the repurchase of these instruments. Therefore, the volume of the CBK's buying and selling transactions in the secondary market for Public Debt Instruments, in addition to repurchase operations, reached KD 2456.7 million.

6- During the fiscal year 1996/97, the CBK processed all 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
<b>First- Documentary Credits:</b>		
Opened:	229	60,049,916.315
Paid	476	51,569,431.436
Amendments:	152	
<b>Second- Collection Transactions:</b>		
Bills for Collection		
In-coming	858	2,998,335.114
Paid-up	705	2,211,901.630
Drafts for Collection:	333	2,497.517

#### **Fourth: The Labour Force at the CBK**

In its endeavours to upgrade the efficiency of staff members, qualify national bankers and increase the percentage of Kuwaiti staff in the total labour force, the CBK pursued during the fiscal year 1996/97 its efforts in developing human resources, through continuing to adopt employment and training policies that aim to attract qualified Kuwaiti cadres to join the bank and encourage them to take up work in the local banking industry. In addition to the CBK efforts in upgrading its organizational structure by establishing new sections within some of its offices and departments, preparing and endorsing job descriptions reflecting the latest amendments to the minimum requirements for such jobs, along with introducing new job titles, numerous developments in manpower at the CBK occurred during the fiscal year 1996/97, most significant among which are the following:

- 1- The total labour force at the CBK numbered 644 (of which 450 Kuwaitis) at end of the fiscal year 1996/97, compared to 654 (of which 429 Kuwaitis) at end of the previous fiscal year, reflecting a rise in the percentage of Kuwaitis in the CBK to 67.8% from 65.6%, and a decrease in the percentage of expatriates (including unskilled labour) to 32.2% from 34.4%. If unskilled labour are excluded from the comparison, the percentage of Kuwaitis reaches 75.6%. On the other hand, the percentage of Kuwaitis in leadership and supervisory posts at the CBK stood at 95.2%.
  
- 2- During the fiscal year 1996/97, 54 staff members were appointed at the CBK, of which 39 Kuwaitis (72%). Also, 16 Kuwaiti graduates holding university degrees and five Kuwaiti graduates holding the diploma of applied sciences were accepted for grooming as CBK



staff members. On the other hand, 12 Kuwaiti trainees were confirmed in the jobs they were nominated for in the CBK departments and offices. Thus, the total number of appointees and staff members confirmed in their posts at the CBK, during the fiscal year 1996/97, reached 66, of which 51 Kuwaitis (77 %).

3- Within the context of the CBK annual training plan, reflecting the bank's training requirements which are determined through the joint cooperation of its departments and offices, 16 training programs were prepared and implemented during the fiscal year 1996/97, and 217 staff members benefited from these in-house training programs.

With regard to the specialized training courses organized by the CBK for its staff members during the fiscal year 1996/97 in cooperation with other institutions in Kuwait and abroad, 35 staff members were sent to attend 29 of such courses at international banking institutions abroad; meanwhile, 68 CBK staff members were sent on 36 specialized training courses held in cooperation with training institutions in Kuwait.

Regarding CBK participation in conferences and meetings held at the international, Arab and Gulf countries levels in the areas of economics, banking, finance and other areas of relevance to the CBK activity, 37 staff members of the CBK took part during the fiscal year 1996/97 in such official conferences and meetings.

4- In the area of the educational and training activities held in cooperation with the Institute of Banking Studies (IBS) during the fiscal year 1996/97, 14 staff members of the CBK were on IBS enrollment for the two-year high diploma in banking studies (five of them were in the first year and nine in the second year); meanwhile, three staff members graduated from the IBS during that period. Furthermore, four staff members benefited from the special educational syllabus presented by the IBS to the banking and financial sector according to the free selection syllabus system.

Concerning the specialized banking training courses, English language courses and short courses presented by the IBS, 146 staff members of the CBK were sent to attend these programs during the fiscal year 1996/97.

**Fifth :     The Central Bank of Kuwait Balance Sheet  
As at the End of the Fiscal Year 1996/97, and Its  
Profit & Loss Account for that Year**

## **REPORT OF THE AUDITORS**

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 1997 and of the results of its operations for the year then ended, in compliance with Law No. 32 of 1968 as amended by 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

**13 July 1997**

**State of Kuwait**

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**CENTRAL BANK OF KUWAIT**

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**BALANCE SHEET AS ON**

<b>Assets :</b>		<b>30 June</b>	<b>30 June</b>
	<b>Note</b>	<b>1997</b>	<b>1996</b>
Gold		31,732,140	31,732,140
Cash, and Current and Call Accounts in Foreign Currency with Banks and Financial Institutions		152,378,710	67,417,070
Investments and Deposits in Foreign Currency	3	811,089,970	1,025,908,101
Deposits, Loans and Current Accounts with Local Banks and Financial Institutions in KD	4	6,844,469	4,406,487
Local Bonds in Kuwaiti Dinars and Public Debt Instruments	5	41,842,190	39,124,769
Other Assets	6	5,339,272	6,053,913
		<b>1,049,226,751</b>	<b>1,174,642,480</b>
Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts	12	<b>5,280,465,859</b>	<b>6,128,531,771</b>

## 30 JUNE 1997 (KD)

<b>Capital and Liabilities</b>	<b>Note</b>	<b>30 June 1997</b>	<b>30 June 1996</b>
Capital - Fully Paid Up		5,000,000	5,000,000
General Reserve Fund	7	179,000,000	179,000,000
Special Account	8	104,598,597	127,802,067
Profit For the Year		44,587,717	48,878,644
Currency Issued	9	407,097,673	410,449,562
Government Accounts		224,823,673	301,672,626
Local Banks' Accounts and Deposits with the CBK	10	59,636,537	85,041,031
International Institutions		5,717,822	3,882,151
Deposits on Documentary Credits	12	4,084,026	3,801,724
Other Liabilities	11	14,680,811	9,114,675
		<b>1,049,226,751</b>	<b>1,174,642,480</b>
Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts	12	<b>5,280,465,859</b>	<b>6,128,531,771</b>

The attached notes from 1 to 15 constitute a part of these financial statements.

**PROFIT & LOSS ACCOUNT FOR  
THE YEAR ENDED 30 JUNE 1997**

		<b>1996/97</b>	<b>1995/96</b>
	<b>Note</b>	<b>(Ending 30 June)</b>	<b>(Ending 30 June)</b>
Interest & Income From Investments		52,470,969	56,054,914
Interest and Commission Expenses		(516,154)	(764,069)
Provisions Against Bad Debt & Investments No Longer Required (Charged)		2,613,086	2,785,524
		54,567,901	58,076,369
Other Income		291,146	506,249
<b>Operating Income</b>		<b>54,859,047</b>	<b>58,582,618</b>
<b>Operating Expenses</b>	12	<b>10,271,330</b>	<b>9,703,974</b>
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 Law No. 130 of 1977		<b>44,587,717</b>	<b>48,878,644</b>

The attached notes from 1 to 15 constitute a 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 in Kuwait by Law No. 32 of 1968 as amended by 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 system and serving as banker and financial advisor to the Government.

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### 2 - Significant Accounting Policies:

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These financial statements have been prepared in accordance with Law No. 32 of 1968 as amended by 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) Investments:

- **Short-term Investments:** Kuwaiti treasury bills owned by the CBK are stated in the balance sheet at cost, adjusted for unamortised discount.
- **Long-term Investments:** Long-term investments 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 (as amended by Law No. 130 of 1977) and the Amiri Decree of 9 July 1978, all assets and liabilities in foreign currencies at the balance sheet date are translated into Kuwait Dinars at the year end rates of exchange and resulting gains or losses are taken to a special account.

<b>3 - Investments &amp; Deposits in Foreign Currencies (KD):</b>		
	<b>30 June 1997</b>	<b>30 June 1996</b>
Deposits with Banks and Foreign Institutions	806,554,720	1,021,411,701
Bonds of Foreign Governments	4,535,250	4,496,400
	<b>811,089,970</b>	<b>1,025,908,101</b>

<b>4 - Deposits &amp; Loans in KD with Local Banks and Financial Institutions (KD):</b>		
	<b>30 June 1997</b>	<b>30 June 1996</b>
Loan	6,844,469	7,014,328
Provision for doubtful debt	-	2,607,841
	<b>6,844,469</b>	<b>4,406,487</b>



<b>5 - Local Bonds in KD &amp; Public Debt Instruments (KD):</b>		
	<b>30 June 1997</b>	<b>30 June 1996</b>
Local Bonds in KD	699,243	2,696,168
Kuwaiti Treasury Bills	41,142,947	36,428,601
	<b>41,842,190</b>	<b>39,124,769</b>

<b>6 - Other Assets (KD):</b>		
	<b>30 June 1997</b>	<b>30 June 1996</b>
Interest Receivable on Deposits and other Assets	1,535,009	1,767,997
CBK's Share in the Capital of the Industrial Bank of Kuwait	2,511,210	2,511,210
Other Debit Balances	1,187,916	1,679,901
Prepaid Expenses	105,137	94,805
	<b>5,339,272</b>	<b>6,053,913</b>

### **7 - General Reserve Fund:**

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

<b>8 - Special Account (KD):</b>		
	<b>30 June 1997</b>	<b>30 June 1995</b>
Balance at Beginning of the Year	127,802,067	158,459,384
Net Profit (loss) on Foreign Exchange Resulting From Revaluation of Assets and Liabilities in Foreign Currencies	(23,203,470)	(30,657,317)

Balance at End of the Year	<u>104,598,597</u>	<u>127,802,067</u>
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The special account represents the net profit accumulated as a result of revaluation of all 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 (as amended by Law No. 130 of 1977) and the Amiri Decree of 9 July 1978.

<b>9 - Currency Issued (KD):</b>	<b>30 June 1997</b>	<b>30 June 1996</b>
Net Currency Produced	1,215,907,134	1,312,854,508
Less : Currency in the CBK's Vaults	808,809,566	902,404,946
	<u>407,097,568</u>	<u>410,449,562</u>

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

<b>10- Local Banks Deposits and Accounts with the CBK (KD):</b>	<b>30 June 1997</b>	<b>30 June 1996</b>
Current Accounts	59,636,537	60,041,031
Deposits	-	25,000,000
	<u>59,636,537</u>	<u>85,041,031</u>

<b>11- Other Liabilities (KD):</b>	<b>30 June 1997</b>	<b>30 June 1996</b>
Accrued Expenses	840,800	674,842
Other Credit Balances	13,840,011	8,439,833
	<u>14,680,811</u>	<u>9,114,675</u>

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

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**12- Accounts Managed by the CBK on Behalf of the Government of the State of Kuwait and Contra Accounts:**

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	<u>30 June 1997</u>	<u>30 June 1996</u>
Accounts Managed by the CBK on Behalf of the Government	5,171,478,357	6,013,007,351
Contra Accounts :		
Letters of Credit	91,807,839	99,830,176
Memorial Notes and Coins	1,467,568	1,507,099
Forward Transactions on Behalf of the Kuwait Investment Authority	6,088,159	6,033,914
Repayments According to the Law No. 41 of 1993	9,623,936	8,153,231
	<u>108,987,502</u>	<u>115,524,420</u>
	<u>5,280,465,859</u>	<u>6,128,531,771</u>

On 30 June 1997, deposits of KD 4,084,026 (against KD 3,801,724 on 30 June 1996) were held against the letters of credit referred to above.

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**13- Operating Expenses (KD):**

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	<u>30 June 1997</u>	<u>30 June 1996</u>
Employee Costs	7,780,108	7,015,504
Production and Shipment of Currency	186,396	671,483
Administrative and Computer Costs	938,830	851,739
Purchases of Furniture, Equipment and Vehicles	397,127	318,923
Sundry Expenses	968,869	846,325
	<u>10,271,330</u>	<u>9,703,974</u>

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**14- Compensation Claim:**

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The CBK has submitted a 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.

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**15- Promissory Notes Held:**

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On 30 June 1997, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 416,376,658 (against KD 413,220,968 on 30 June 1996).

Contents	Page
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**Introduction**

**First : The Main Monetary and Banking Developments**

- 1 - Monetary Developments .....
- 2 - Banking Developments .....

**Second : Significant Measures Taken and Supervisory Instructions Issued by the CBK**

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

**Fourth : The Labour Force at the CBK**

**Fifth : The Central Bank of Kuwait Balance Sheet As at the End of the Fiscal Year 1996/97, and Its Profit & Loss Account For that Year**

- Report of the Auditors .....
- Balance Sheet.....
  - Assets.....
  - Capital, Reserve and Liabilities .....
- Profit & Loss Account.....
- Notes to the Financial Statements .....