



Central Bank of Kuwait



Annual Report Forty-Third 2014-2015

CENTRAL BANK
OF KUWAIT

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بنك الكويت المركزي
Central Bank of Kuwait



THE FORTY-THIRD ANNUAL REPORT

FOR THE FISCAL YEAR 2014/2015



**H. H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir Of The State Of Kuwait**



**H. H. Sheikh Nawwaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince Of The State Of Kuwait**



**H. H. Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
The Prime Minister Of The State Of Kuwait**

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FOR THE FISCAL YEAR 2014 / 2015



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Member

In the Name of Allah, Most Gracious, Most Merciful

Introduction

It gives me great pleasure to introduce the 43rd Annual Report of the Central Bank of Kuwait (CBK) for the Fiscal Year (FY) 2014/2015 including the Auditors' Report on the CBK's financial statements as at 31st March 2015. As in the previous years, this Report begins with an overview of the most salient monetary and banking developments in the Kuwaiti economy during FY2014/2015. The Report also highlights the main procedures and operations carried out by the CBK's departments and offices in various fields relating to monetary and banking affairs during the year, including the CBK's supervisory regulations applied to institutions operating within the domestic financial sector.

In continuation of its endeavors to maintain best practices in all fields of international central banking, and in light of the advances made in technological and central banks practices in the area of banknotes issuance, the CBK, in accordance with Law No. 32 of 1968 concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business and amendments thereto, conducted a comprehensive technical study to evaluate the fifth issue of the Kuwaiti Dinar (KD) banknotes issued in 1994. Based on the findings of the study, the CBK identified the need to adopt and incorporate many of the technological advancements achieved over the past twenty years in the banknote printing industry with regard to the use of banknotes security features against counterfeiting and forgery, in addition to improvements in the quality of banknotes used. Consequently, the CBK recognized the need to replace the 5th issue of banknotes made twenty years ago, and to incorporate the above improvements as well as other advancements in the banknote printing industry. In this regard and subject to the recommendation made by CBK's Board of Directors, the Council of Ministers approved in its session held on 10th

June 2013 the proposed new (sixth) issue of KD including features, shape and design of banknote denominations.

Accordingly, the CBK prepared to introduce the sixth issue of KD banknotes during FY2014/2015, which was eventually released into circulation on 29th June 2014. The accompanying media awareness campaign launched by the CBK was instrumental in successfully and efficiently introducing the new notes into public circulation.

Concurrently, the CBK continued in its efforts to focus on strengthening the foundations of monetary and financial stability in the State of Kuwait by formulating and implementing monetary policies and developing methods of supervision and oversight aimed at boosting the foundations of economic growth in the country and enhancing an existing supportive environment for efficient performance of the domestic financial sector.

In terms of monetary developments, Money Supply in its Broad Definition (M2) increased by 3.6% at the end of FY2014/2015 compared with the end of the previous fiscal year. In the same context, the utilized cash portion of credit facilities extended by local banks to domestic economic sectors increased by 5.4% to reach KD 31,077.5 million at the end of FY2014/2015 compared with KD 29,497.1 million at the end of the previous fiscal year. Residents' private sector deposits with local banks increased by 3.9% to KD 33,543.9 million at the end of FY2014/2015 compared to KD 32,298.5 million at the end of the previous fiscal year. Moreover, the aggregate balance sheet of local banks increased to KD 56,734.1 million at the end of FY2014/2015 against KD 54,137.7 million at the end of FY2013/2014, i.e. an increase of KD 2,596.3 million or 4.8%.

The CBK continued its efforts in the area of supervision and oversight of registered local banking and financial system units during FY2014/2015, by adopting procedures to strengthen their financial position in line with the international best practices for effective

banking supervision thereby reinforcing financial stability, enhancing the ability of banks to effectively manage risk and withstand economic shocks and stress situations.

Additionally, the CBK continued in its plans to implement the Basel III Set of Reforms, which includes basic amendments to Basel II Capital Adequacy Standards, incorporating an increase of the total ratio of regulatory capital, redefining it within a set of standards that is meant to improve its quality, and introduction of new standards for financial leverage and short/long-term liquidity.

Furthermore, the CBK made improvements during FY2014/2015 in terms of enhancing the competency of its human resources and upgrading staffs' academic and professional capabilities by offering higher study scholarships at prestigious international universities and organizing local/international specialized training programs to enhance performance and competency - whilst maintaining the high caliber of existing Kuwaiti employees and endeavoring to attract similarly qualified staff to join the CBK so as to reinforce the Bank's capability to carry out tasks entrusted to it.

The CBK has continued its endeavors during FY2014/2015 aimed at developing and upgrading its information technology (IT) infrastructure, keeping pace with global advancements in this area. The CBK has continued its efforts in developing, designing and implementing technical programs and systems in various departments and offices to ensure continuity of CBK's operations under different circumstances, and providing an enhanced client services in line with the international standards. CBK made further progress in developing its new website in both Arabic and English languages. The CBK's new website is designed to be an advanced informative web resource for researchers and other interested individuals, and to serve as a channel of communication with CBK's clients and other website visitors so as to promote disclosure and transparency through expanding the dissemination of data and information published by the CBK.

We pray to Allah the Almighty to grant success to our efforts and endeavors and to enable us to achieve the welfare of our beloved country, under the patronage of His Highness the Amir, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah; His Highness the Crown Prince, Sheikh Nawwaf Al-Ahmed Al-Jaber Al-Sabah; and His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah bless and guard them.

Dr. Mohammad Y. Al-Hashel
Governor

Preface:

The Central Bank of Kuwait (CBK) has continued its efforts during FY2014/2015 in pursuit of its objectives stipulated in Law No. 32 of 1968 concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business and amendments thereof. These objectives include practicing the privilege of issuing the national currency on behalf of the State, maintaining relative stability of the KD exchange rate against foreign currencies and securing its free convertibility, formulating and implementing monetary policy, controlling credit policies of the domestic financial and banking sector, developing supervision and oversight systems and programs for the financial sector with the intention of supporting the growth of the national economy on solid foundations and ensuring financial and monetary stability in the country.

Within this framework, CBK's Annual Plan projects for the year 2014/2015 emphasizes the CBK role as stated above, including the following:

- 1. to continue efforts to define and implement monetary policies consistent with the aim of promoting monetary stability in the national economy.**
- 2. to maintain the relative stability of the KD exchange rate against major foreign currencies, contributing to the reduction of imported inflationary pressures and promoting an appropriate atmosphere for non-oil economic growth on a sustainable basis.**
- 3. to enhance the attractiveness and competitiveness of the national currency as a store of domestic savings to ensure the availability of resources necessary to meet the financing needs of different economic activities and discourage capital outflows.**

- 4. to intensify efforts made with respect to the supervision and oversight efforts over the banking and financial sector so as to enhance the sector's ability to fulfill its role in the national economy.**
- 5. to verify the commitment of the financial sector to execute the CBK's supervisory instructions and implement sound banking and financial practices.**
- 6. to sustain efforts to develop regulatory and supervisory systems of the financial sector in order to strengthen its financial position and enhance its role in serving the national economy.**
- 7. to continue efforts to promote competitive efficiency in the financial sector.**
- 8. to promote sound governance standards by the financial sector, contributing to the enhancement of the basic components of the sector's strong financial position, improving its performance and achieving financial stability.**
- 9. release of the sixth issue of the national currency.**
- 10. to commission the new headquarters of the Central Bank of Kuwait.**

During FY2014/15 CBK continued to implement the projects encompassed in the above-mentioned Annual Plan. These projects are ongoing projects in relation to the core objectives sought by the CBK, in addition to one construction project. This part of the Report highlights the CBK's efforts during FY2014/2015 serving the projects encompassed in the CBK's development plan for the mentioned fiscal year, through:

First- Developments in Monetary Policy and Monetary Indices and Aggregates:

- **Reinforcement of CBK's efforts in defining and implementing monetary policy to promote monetary stability.**
- **Maintaining relative stability of the KD exchange rate against major foreign currencies, contributing to the reduction of imported inflationary pressures and promoting an appropriate atmosphere for non-oil economic growth on a sustainable basis.**
- **Enhancing the attractiveness and competitiveness of the national currency as a store of domestic savings to ensure the availability of resources necessary to meet the financing needs of different economic activities and discourage capital outflows.**

This section of the Report highlights the key developments in the State of Kuwait's major monetary indices and aggregates during FY2014/15 as reflected in data on money supply, interest rates, KD exchange rate against major currencies, bank credit, domestic liquidity, and issuance of public debt instruments. A significant part of these developments reflects the impact of CBK's efforts related to the formulation and implementation of monetary policy. Data related to Kuwait's major monetary indicators and aggregates during FY2014/15 indicate the following positive developments:

A-Money Supply:

Money Supply in its Broad Definition (M2) increased to KD 35,002.5 million at the end of FY2014/15 against KD 33,787.4 million at the end of FY2013/14, i.e. an increase of KD 1,215.1 million or 3.6% compared with an increase of KD 2,721 million or 8.8% during the previous fiscal year. A major part of the increase in M2 resulted from CBK's continuous efforts to manage the levels of domestic liquidity delivering an appropriate atmosphere to boost the growth of various domestic economic sectors.

Money Supply Developments
(KD Million)

End of Period	2013/14 (1)	2014/15 (2)	Change in (2) over (1)	
			Value	(%)
Money Supply (M2)	33787.4	35002.5	1215.1	3.6
Money (M1) of which:	<u>9466.2</u>	<u>9597.8</u>	<u>131.6</u>	<u>1.4</u>
Sight Deposits	7977.2	8139.2	162.0	2.0
Quasi Money	24321.3	25404.7	1083.5	4.5
KD Deposits	21040.5	21598.1	557.6	2.6
FC Deposits	3280.7	3806.6	525.9	16.0

Source: Central Bank of Kuwait.

With respect to the factors affecting the changes in Money Supply in its Broad Definition (M2) within the monetary survey of CBK and local banks¹ at the end of FY2014/15 compared with the end of the previous fiscal year, the mentioned rise in M2 of KD 1,215.1 million or 3.6% came as a result of the increase in net domestic assets of those institutions of KD 755.8 million and net foreign assets of these mentioned institutions of KD 470.3 million. The rise in net domestic assets was due to the increase in local banks' claims on the private sector of KD 1,388.5 million, and the decline in CBK's and local banks' claims on the government of KD 39.9 million (which had an expansionary impact on M2), and the increase in net domestic assets under item "other" of KD 672.6 million (which had a contractionary impact on M2). The mentioned rise in net foreign assets of those institutions was an outcome of the increase in net foreign assets of local banks of KD 1,173 million on one hand, and the decline in net foreign assets of CBK of KD 702.8 million on the other.

¹ Includes Kuwaiti banks (5 traditional banks, 5 Islamic banks, in addition to one specialized bank), and branches of foreign banks (12, of which one is an Islamic bank) as at the end of FY2014/15.

**Net Domestic and Foreign Assets Developments
of CBK and Local Banks
(KD Million)**

End of Period	2013/14	2014/15	Change in (2) over (1)	
	(1)	(2)	Value	%
Net Domestic Assets:	17182.3	17938.1	755.8	4.4
-Claims on the Private Sector	31657.5	33046.0	1388.5	4.4
-Claims on the Government (Net)	4357.4	4317.5	-39.9	-0.9
-Other (Net)	10117.8	10790.4	672.6	6.6
Net Foreign Assets:	16316.2	16786.5	470.3	2.9
-CBK	9184.0	8481.2	-702.8	-7.7
-Local Banks	7132.3	8305.3	1173.0	16.4

Source: Central Bank of Kuwait.

B- Domestic Interest Rates:

CBK's Discount Rate plays a pivotal role as it is associated, within specified margins, with the maximum limits of interest rates on KD-lending transactions of the local banking and financial system units. Accordingly, decreasing (or increasing) the Discount Rate will necessarily entail an equal decrease (or increase) in the maximum limits of interest rates on KD-lending transactions of the local banking and financial system units.

In light of CBK's constant follow-up of local economic, monetary and banking developments on the one hand, and the changes in interest rates of major foreign currencies on the other, and in pursuit of CBK's efforts to strengthen the foundations of domestic economic growth while maintaining KD's attractiveness and competitiveness as a store of domestic savings and a tool to curb inflationary pressures, the CBK maintained its Discount Rate at its current (historically lowest) level of 2% during FY2014/15, after reducing it by 50 basis points (from 2.5% to 2%) in October 2012.

As for interest rates on customers' KD and US dollar time deposits with local banks, the average interest rates on customers' KD time deposits witnessed a rise during FY2014/15 compared with the previous fiscal year. Specifically, the average interest rates on customers' KD time deposits of one-month and three-month maturity increased to 0.600% and 0.788% respectively during FY2014/15 against 0.563% and 0.743% for the two mentioned terms respectively during the previous fiscal year.

Moreover, the average interest rates on US dollar time deposits with local banks of one-month and three-month maturity decreased during FY2014/15 reaching 0.155% and 0.276% respectively against 0.162% and 0.283% for the two mentioned terms respectively during the previous fiscal year. Consequently, the margin between the average interest rates on KD and US dollar deposits of one-month and three-month maturity during FY2014/15 reached 0.445 percentage point and 0.512 percentage point respectively in favor of KD deposits, against 0.401 and 0.460 percentage point respectively in favor of KD deposits during FY2013/14.

On the other hand, the average interest rates on local interbank KD deposits of one-month maturity increased during FY2014/15 reaching 0.849% against 0.554% for the mentioned term during FY2013/14. Meanwhile, the average interest rates on public debt instruments remained unchanged at its previous level of 1%.

C- The KD Exchange Rate:

During FY2014/15, CBK continued its efforts towards maintaining relative stability of the KD exchange rate against other major currencies, in light of the KD exchange rate policy adopted since 20 May 2007 pegging the Kuwaiti Dinar to a special weighted basket of currencies of countries that are significantly engaged in trade and financial relations with the State of Kuwait.

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

FY	2013/14				2014/15			
	Highest Price	Lowest Price	End of Period	Average	Highest Price	Lowest Price	End of Period	Average
Kuwaiti Dinar (fils)	286.80	281.00	281.50	283.52	300.00	280.50	299.60	287.83
Pound Sterling	0.6724	0.5963	0.6031	0.6303	0.6782	0.5828	0.6722	0.6190
Euro	0.7824	0.7176	0.7255	0.7470	0.9529	0.7181	0.9180	0.7854
Swiss Franc	0.9770	0.8725	0.8855	0.9189	1.0196	0.8575	0.9616	0.9290
Japanese Yen	105.325	92.830	102.125	100.09	121.715	101.170	119.130	109.62

Source: Central Bank of Kuwait.

In this regard, the average exchange rate of the US dollar against the KD for FY2014/15 reached 287.83 fils (per US dollar) against 283.52 fils during the previous fiscal year, i.e. an increase in US dollar's exchange rate of 4.31 fils or 1.5%. The difference between the highest (300 fils) and the lowest (280.5 fils) exchange rate of the US dollar against the KD during FY2014/15 reached 7%. Conversely, the exchange rate of the US dollar witnessed significant fluctuations against other major currencies during FY2014/15. The difference between the highest and the lowest exchange rates of the US Dollar reached 32.7% against the Euro, 20.3% against the Japanese Yen, 18.9% against the Swiss Franc and 16.4% against the Pound Sterling.

D- Bank Credit:

Balances of the utilized cash portion of credit facilities extended by local banks to various economic sectors during FY2014/15 increased by KD 1,580.4 million or 5.4% to reach KD 31,077.5 million at the end of the mentioned fiscal year compared to KD 29,497.1 million at the end of FY2013/14. This rise resulted basically from the rise in credit facilities extended to the Personal Facilities sector (KD 1,036.2 million or 8.9%), the Real Estate sector (KD 313.9 million or 4.1%), the Crude oil and gas sector (KD 171.3 million or 69.1%), the Public Services sector (KD 76.3 million or 811.7%) and the Trade

sector (KD 28.8 million or 1%). On the other side, cash credit facilities extended by local banks to Non-bank Financial Institutions declined (KD 115.4 million or 7.9%), the Industry sector (KD 92.4 million or 5.1%) and the Construction sector (KD 22.8 million or 1.2%) at the end of FY2014/15 compared with the previous fiscal year.

Developments of Balances of Utilized Cash Portion of Credit Facilities extended to Residents by Local Banks
(KD Million)

End of Period	2013/14 (1)	2014/15 (2)	Change in (2) over (1)	
			Value	(%)
Total utilized cash credit facilities, of which:	29497.1	31077.5	1580.4	5.4
• Trade	2861.9	2890.6	28.7	1.0
• Industry	1827.5	1735.0	-92.5	-5.1
• Construction	1925.2	1902.4	-22.8	-1.2
• Non-bank Financial Institutions	1468.7	1353.4	-115.3	-7.9
• Personal Facilities	11609.2	12645.4	1036.2	8.9
• Real-Estate	7660.6	7974.5	313.9	4.1
• Oil and Gas	248.1	419.4	171.3	69.0

Source: Central Bank of Kuwait.

E- Domestic Liquidity:

CBK pursued managing levels of domestic liquidity during FY2014/15 in accordance with the local economic, monetary and banking conditions. CBK uses numerous monetary instruments, notably the system of accepting time deposits from local banks, issuing CBK bonds, and managing the issuance of public debt instruments including Kuwaiti Treasury bonds on behalf of the Ministry of Finance. Furthermore, CBK directly intervenes to regulate levels of liquidity maintained by domestic banking sector units.

Furthermore, balances of time deposits of local banks with CBK, under the system of accepting time deposits from local banks, decreased by KD 331.3 million or 10% to KD 2,991.4 million at the end of FY2014/15 compared with KD 3,322.8 million at the end of the previous FY2013/14. CBK introduced 43 issues of CBK bonds with a total nominal value of KD 6,300 million during FY2014/15. During that fiscal year 41 previous issues of these bonds with a total nominal value of KD 6,325 million matured. Accordingly, the outstanding balance of CBK bonds decreased to KD 1,925 million at the end of FY2014/15 against its level of KD 1,950 million at the end of the previous fiscal year, i.e. a decline of KD 25 million or 1.3%.

F- Public Debt Instruments:

CBK manages the issuance of public debt instruments including Kuwaiti Treasury Bills and Bonds on behalf of the Ministry of Finance. These instruments enable CBK to regulate the levels of domestic liquidity through primary market instruments, or through open market operations using secondary market instruments. Within this context, CBK introduced 26 issues of Treasury Bonds during FY2014/15 with a total nominal value of KD 1,260 million, while 25 previous issues of these bonds matured with a total nominal value of KD 1,250 million. Accordingly, the total outstanding balance of public debt instruments (Treasury Bills and Bonds) increased by KD 10 million or 0.6% to KD 1,587.2 million at the end of FY2014/15 against KD 1,577.3 million at the end of the previous fiscal year. The balance of public debt instruments held by local banks was KD 1,567.1 million (98.7%), and those held by other local institutions was KD 20.1 million (1.3%) at the end of FY2014/15.

Banking and Financial Aggregate Developments:

A- The Aggregate Balance Sheet of Local Banks:

Data on the aggregate balance sheet of local banks indicate an increase to KD 56,734.1 million at the end of FY2014/15 against KD 54,137.7 million at the end of FY2013/14, i.e. a rise of KD 2,596.3 million or 4.8%. This rise was caused by various developments in the components of both assets and liabilities sides of the balance sheet, the most notable of which are highlighted as follows:

On the Assets Side:

- Local banks' claims on the private sector increased by KD 1,388.4 million or 4.4% to KD 33,045.9 million at the end of FY2014/15 against KD 31,657.5 million at the end of FY2013/14. This increase resulted from the rise in the balances of utilized cash portion of credit facilities extended by local banks to various domestic economic sectors of KD 1,580.4 million or 5.4% to KD 31,077.5 million at the end of FY2014/15 against KD 29,497.1 million at the end of the previous fiscal year on the one hand, and the decrease in the balances of other local investments of KD 191.9 million or 8.9% to KD 1,968.5 million at the end of FY2014/15 against KD 2,160.4 million at the end of the previous fiscal year, on the other.
- Foreign assets of local banks increased by (the equivalent of) KD 1,480.5 million or 13.4% to KD 12,489.9 million at the end of FY2014/15 against KD 11,009.4 million at the end of the previous fiscal year. This rise resulted from the increase in the balances of local banks' deposits with foreign banks by KD 899.3 million or 14.8%, credit facilities extended to non-residents by KD 333.3 million or 34.3%, foreign investments of local banks by KD 171.5 million or 4.9%, and other foreign assets by KD 76.3 million or 16%.

- Local banks' claims on the government increased by KD 11.9 million or 0.8% to KD 1,567.1 million at the end of FY2014/15 against KD 1,555.3 million at the end of the previous fiscal year. These claims are local banks' holdings of public debt instruments.
- Local banks' claims on CBK decreased by KD 500.7 million or 8.1% to KD 5,708 million at the end of FY2014/15 against KD 6,208.7 million at the end of the previous fiscal year. This decrease resulted from the decline in the balances of time deposits with CBK of KD 331.4 million or 10%, from KD 3,322.8 million to KD 2,991.4 million; sight deposits with CBK of KD 144.4 million or 15.4%, from KD 935.9 million to KD 791.5 million; and local banks' holdings of CBK Bonds of KD 25 million or 1.3%, from KD 1,950 million to KD 1,925 million.

On the Liabilities Side:

- Resident private sector deposits with local banks increased by KD 1,245.4 million or 3.9% to KD 33,543.9 million at the end of FY2014/15 against KD 32,298.5 million at the end of the previous fiscal year. The mentioned rise resulted primarily from the increase in the balances of KD deposits of KD 719.5 million or 2.5% to KD 29,737.3 million at the end of FY2014/15 against KD 29,017.8 million at the end of the previous fiscal year. Likewise, resident private sector deposits in foreign currency with local banks increased by KD 525.9 million or 16% reaching KD 3,806.6 million at the end of FY2014/15 against KD 3,280.7 million at the end of the previous fiscal year.
- Foreign liabilities of local banks increased by (the equivalent of) KD 307.4 million or 7.9% to KD 4,184.6 million at the end of FY2014/15 against KD 3877.2 million at the end of FY2013/14. This rise was brought about by the increase in other foreign liabilities by KD 178.3 million or 103.2%, other non-residents' deposits by KD 96.2 million or 9% and the balances of non-resident banks' deposits by KD 32.9 million or 1.2% at the end of FY2014/15 compared with FY2013/14.

The Aggregate Balance Sheet of Local Banks
(KD Million)

Items	Balances at the end of the year	
	2013/14	2014/15
Assets:		
Cash	288.9	277.9
Claims on CBK	<u>6208.7</u>	<u>5708.0</u>
Balances (demand deposits) with CBK	935.9	791.5
CBK Bonds	1950.0	1925.0
Time Deposits with CBK	<u>3322.8</u>	<u>2991.4</u>
Local Interbank Deposits	1731.0	2121.9
Claims on Government	<u>1555.3</u>	<u>1567.1</u>
Public debt instruments purchasing debt bonds	1555.3	1567.1
-	-	-
Claims on Private Sector	<u>31657.5</u>	<u>33045.9</u>
Credit Facilities to Residents	29497.1	31077.5
Other Domestic Investments	2160.4	1968.4
Foreign Assets	<u>11009.4</u>	<u>12489.9</u>
Deposits with Foreign Banks	6072.7	6972.0
Credit Facilities to Non-Residents	972.5	1305.8
Investments Abroad	3487.0	3658.5
Other Foreign Assets	477.3	553.6
Other Assets	1687.1	1523.4
Assets = Liabilities	54137.7	56734.1
Liabilities:		
Resident Private Sector Deposits	<u>32298.5</u>	<u>33543.9</u>
KD Deposits	29017.8	29737.3
Foreign Currency Deposits	3280.7	3806.6
Government Deposits	5208.8	5212.2
Local Interbank Deposits	1756.6	2109.9
Shareholders' Equity	7240.2	7620.7
Foreign Liabilities	<u>3877.2</u>	<u>4184.6</u>
Non-Resident Bank Deposits	2641.6	2674.5
Other Non-Resident Deposits	1062.9	1159.1
Other Foreign Liabilities	172.7	351.0
Other Liabilities	3756.5	4062.8
Contra Accounts:	11141.8	12018.5
Bank Guarantees	9776.6	10632.5
Documentary Credits	1022.5	1017.9
Bank Acceptances	342.7	368.1

Source: Central Bank of Kuwait.

- Shareholders' equity with local banks increased by KD 380.5 million or 5.3% to KD 7620.7 million at the end of FY2014/15 against KD 7240.2 million at the end of FY2013/14.

- Government deposits with local banks increased by KD 3.4 million or 0.1% to KD 5,212.2 million at the end of FY2014/15 against KD 5,208.8 million at the end of FY2013/14.

On the other hand, the balances of contra accounts with local banks reached KD 12,018.5 million at the end of FY2014/15 against KD 11,141.8 million at the end of FY2013/14, i.e. an increase of KD 876.7 million or 7.9%. These balances represent 21.2% of the aggregate balance sheet of local banks at the end of FY2014/15 against 20.6% at the end of FY2013/14.

B- The Aggregate Balance Sheet of Local Investment Companies:

In accordance with Law No. 7 of 2010 concerning the establishment of the Capital Markets Authority (CMA) and regulation of securities supervisory responsibilities of the investment funds and companies, except their financing activity, were transferred from the CBK to the CMA as of 13/9/2011. Worth noting is that a memorandum of understanding was signed on 11/9/2011 defining the framework of coordination between the CBK and the CMA regarding the supervision of the units supervised by CBK. The memorandum covers the aspects of coordination related to the supervision of investment companies, the licensing of new companies, and the supervisory measures applied to the units supervised by the CBK. Likewise, a permanent joint work team was formed and authorized to carry out coordination tasks as per the memorandum of understanding signed.

Within the same context, the aggregate balance sheet of local investment companies (conventional and Islamic) reached KD 10,496.6 million at the end of FY2014/15 (for 87 companies) against KD 10,609 million at the end of FY2013/14 (for 92 companies), i.e. a decline of KD 112.4 million or 1.1%. This decline reflects the decrease in the number of companies which data have been compiled from 92 to 87. The decline was also caused by

various developments on both assets and liabilities sides of the aggregate balance sheet of local investment companies, briefly described as follows:

On the Assets Side:

- Total domestic investments dropped by KD 176.9 million or 6.7% to KD 2,456.5 million at the end of FY2014/15 compared to KD 2,633.4 million at the end of FY2013/14.
- Total foreign assets decreased by (the equivalent of) KD 120.7 million or 2.4% to KD 4,926.4 million at the end of FY2014/15 compared to KD 5,047.1 million at the end of FY2013/14.
- Cash and balances with local banks increased by KD 11.6 million or 2.3% to KD 506.1 million at the end of FY2014/15 against KD 494.5 million at the end of FY2013/14.
- The balances of customer financing increased by KD 110.7 million or 13.9% to KD 906.3 million at the end of FY2014/15 against KD 795.6 million at the end of FY2013/14.

On the Liabilities Side:

- Total foreign liabilities increased by (the equivalent of) KD 62.5 million or 3.4% reaching KD 1906.4 million at the end of FY2014/15 compared to KD 1843.9 million at the end of FY2013/14.
- The balances of shareholders' equity decreased by KD 30.3 million or 0.7% to KD 4,558.2 million at the end of FY2014/15 compared to KD 4,588.5 million at the end of FY2013/14.

- The balances of financing from residents declined by KD 169.9 million or 7.2% to KD 2,203.5 million at the end of FY2014/15 compared to KD 2,373.4 million at the end of FY2013/14.

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

Items	Balances at the end of the year	
	2013/14	2014/15
Assets:		
Cash and Balances with Local Banks	494.5	506.1
Customer Financing	795.6	906.3
<u>Local Investments</u>	<u>2633.4</u>	<u>2456.5</u>
Financial Investments	2172.7	1973.6
Non-financial Investments	460.7	482.9
Foreign Assets	5047.1	4926.4
Other Assets	1638.3	1701.2
Assets=Liabilities	10609.0	10496.6
Liabilities:		
Shareholders' Equity	4588.5	4558.2
Financing from Residents	2373.4	2203.5
Bonds and Financing Sukuk	85.2	49.9
Foreign Liabilities	1843.9	1906.4
Other Liabilities	1718.0	1778.5
Number of Companies	92	87

Source: Central Bank of Kuwait.

The balances of contra accounts (off-balance sheet items) data represent an important side of local investment companies activity (conventional and Islamic) in extending several financial services to resident/non-resident clients. The balances of contra accounts of those companies reached KD 19,641.6 million at the end of FY2014/15 (for 87 companies) compared to KD 20,121.5 million at the end of FY2013/14 (for 93 companies), i.e. a decrease of KD 479.9 million or 2.4%.

Second- CBK's Supervisory Efforts

CBK's supervisory and oversight efforts over the listed banking and financial sector units continued during FY2014/15 within the framework of maintaining the integrity of the financial situation of these units and promoting Kuwait's monetary and financial stability. These efforts were part of CBK's projects in this area within the Development Plan, and are represented in the following projects:

- Intensifying the supervisory and oversight efforts over the banking and financial sector to enhance the sector's ability to fulfill its role in the national economy.
- Verifying the financial and banking sector units' commitment to execute supervisory instructions and implement sound financial and banking practices.
- Sustaining the efforts to develop the supervisory and oversight systems and instructions concerning financial and banking sector units to strengthen their financial position and fulfill their role in the national economy.
- Continuing to improve competitive efficiency in the financial and banking sector units.
- Adopting and implementing sound governance standards by the units of the banking and financial sector, which would contribute to the strengthening of the basic components of these units' strong financial position, improve their performance, and achieve financial stability.

It is worth noting that these are routine works carried out by the Supervision Sector -On Site and Off Site Supervision- which fall under the above-mentioned projects and take the form of ongoing projects, such as the inspection of units subject to the supervision of the CBK, studying and approving the quarterly and annual data on those units, and other tasks related to the supervisory activities.

The most significant accomplishments achieved by the supervision sector as part of the above-mentioned projects, other than the sector's routine work, as well as key regulations, circulars and controls issued for the banking and financial units under its supervision during FY2014/15 are addressed below with a brief description of the objectives thereof:

- Within the framework of implementing advanced supervising methods in line with the international best practices, the banks continued to conduct semiannual financial stress testing and Internal Capital Adequacy Assessment Process (ICAAP). In light of the decline in oil prices in world markets since June 2014, CBK has revised the hypothetical scenarios for financial stress testing reflecting these developments, to be exercised as of 31/12/ 2014. CBK performs three types of stress testing. **The first type** of stress testing conducted by CBK is based on scenarios exposing banks to hypothetical negative shocks in key macro- and microeconomic variables. **The second type** is a model stress testing designed by CBK to be conducted semiannually by banks within the ICAAP procedure as part of the implementation of the second requirement of the capital adequacy standard. **The third type** is the stress testing conducted by banks according to the specific vision of each individual bank, within CBK's intention to allow banks to conduct stress testing according to their own scenarios and hypotheses, taking into consideration differences in their financial structures, nature of activities and risk tendency limits. Furthermore, these three types of tests – conducted over a one-year horizon - have revealed banks' satisfactory ability and flexibility to face various shocks, and to continue their activities in difficult conditions, supported by sufficient buffers to absorb shocks provided by the banks' capital bases and liquidity conditions.
- As part of CBK's efforts to implement the international supervisory standards, immunize the banking system and improve its ability to resist shocks, CBK has taken

the following necessary measures in line with the implementation of Basel Committee's latest supervisory standards known as Basel III set of reforms:

- A. CBK's Board of Directors approved, in its session held on 24/6/2014, the final form of Basel III capital adequacy instructions for conventional and Islamic banks with a minimum capital adequacy ratio of 13%. CBK's instructions permit banks to phase in the minimum level of Basel III capital adequacy within 3 years (2014-2016) in accordance with the transitional period stipulated in the issued instructions. This standard aims to improve capital quality, enhance the ratio of regulatory capital, develop risk management to strengthen banks' loss absorption capacity, and increase their ability to face shocks, in addition to major amendments regarding the enhancement of disclosure and transparency.
- B. In accordance with Basel III requirements, CBK's Board of Directors approved, in its session held on 21/10/2014, the leverage standard for conventional and Islamic banks, requiring a minimum leverage limit of 3%. This standard aims at limiting leverage accumulation in the banking sector which may cause pressures on the system and the economy in general, taking into consideration that calculating the leverage ratio is not based on the size of risk-weighted assets as required by Basel III capital adequacy instructions, but on bank's total assets on/off- balance sheet.
- C. In accordance with Basel III requirements, CBK's Board of Directors approved in its session held on 23/12/2014, the standard of liquidity coverage ratio (LCR) for conventional and Islamic banks. The said requirements were issued on the same date, aiming at enhancing banks' ability to face short-term liquidity risks, ensuring that banks have sufficient high quality liquid assets to cover contingent liquidity needs for a 30-day stress scenario.

The second liquidity standard, which is the net stable funding standard, is currently being prepared. It aims to improve matching between banks' financial resources and uses of

such resources through enhancing the stability of banks' financial resources. This standard is to be completed before the end of June 2015.

- In the context of risk-based supervisory inspection, CBK has continued to execute inspection tasks on banks using advanced methods focusing on quantitative and qualitative evaluation of banks' activity components according to the CAMEL-BCOM mechanism. This mechanism has also been implemented in the field of anti-money laundering and financing terrorism.
- Within the framework of keeping pace with international supervisory developments and CBK's concern regarding large exposures, concentration of consumer credit risk in Kuwaiti banks, and the mechanism used by banks in monitoring and managing this type of risk, a circular was issued to all Kuwaiti banks on 24/12/2014 instructing the provision of a brief report on their strategy of risk management, particularly large exposures, concentrations of credit and the methodology followed by banks in assessing creditworthiness of customers, as well as the principles and rules applied by banks in assessing the quality of different forms of collaterals. Banks are also required to submit an annual statement of indebtedness on the top 25 customers and other involved parties, along with bank's assessment and future vision of the level of risk those customers are exposed to separately.
- In the context of CBK's monitoring efforts of developments in the credit and financing portfolio of Kuwaiti banks in order to verify its quality, and CBK's cooperation with banks in applying best practices, the nonperforming debts of Kuwaiti banks declined at the level of local activity to total monetary facilities portfolio to 2.2% as on 31/12/2014 against 3.2% as on 31/12/2013.
- In light of CBK's continuous follow up regarding the leading positions in banks, and the importance it gives to training and qualifying national cadres as well as offering them leading positions, and in accordance with the circular directed to Kuwaiti banks

on 29/8/2013 regarding banks' policies and plans in terms of career development which emphasizes that banks should give the priority of occupying leading positions to Kuwaiti nationals, and organize advanced training programs to enhance employees skills and capabilities contributing to the building of the national leaderships needed in different fields. CBK issued a circular on 17/4/2014 asserting the above-mentioned and instructing banks to assign non-Kuwaitis in leading positions to train and qualify national cadres within a determined appropriate period, in order to replace non-Kuwaitis within the framework of banks' career development and replacement plans. Therefore, out of CBK's sense of responsibility towards the society to build national cadres able to contribute in supporting the development process in the State of Kuwait, CBK, in collaboration with some local banks, has initiated Master Degree scholarship programs for Kuwaiti graduates at the world's most prestigious universities. Graduates of Master Degree programs have the right to work at any institution in the public or private sector.

- Within the framework of CBK's quest to reinforce banks' activities locally, develop their performance and motivate the banking sector competitiveness, and in light of the legislative amendment allowing foreign banks in the State of Kuwait to open more than one branch in addition to representative offices, CBK issued a circular to all foreign banks in the State of Kuwait on 25/3/2014 specifying the controls, conditions and principles approved by CBK Board of Directors with which licensed foreign banks working in the State of Kuwait and allowed to open more than one branch, should comply. The Board agreed in its session held on 21/10/2014 to the opening of a second branch of Qatar National Bank. This branch is the first foreign bank opened under this amendment.
- Within the development of systems and improvement of the quality of data submitted to CBK, as well as transition from manual to electronic system in order to increase the speed and efficiency of the process of oversight and supervision of the units under CBK's supervision, a set of projects have been and/or are being completed in this

framework during the year under review. In addition, developing softwares have been installed on CBK's systems for the Consumer Protection Unit.

- With the increasing relevance of the role of exchange companies in the field of money transfers as specialized institutions in this activity, and within the framework of procedures undertaken by CBK to strengthen supervisory controls on exchange companies' operations through their fulfillment of a set of standards and requirements that are in line with the supervisory developments, enhancing sound practices of these companies and improving the performance of this sector which is considered an important pillar of the financial system in the country, CBK's Board of Directors approved in its session held on 21/10/2014 a set of principles and controls related to establishing exchange companies and supervising their activities, represented in assigning the minimum capital requirements, and the requirements needed for senior executive jobs in these companies.
- Within the framework of implementing the Family Support Fund law, and the circular issued by CBK on 10/6/2013 in this regard, CBK has been following-up, during the year, the reports of audit offices concerning the examination of consumer and installment loans by which borrowers have benefited under this law in order to verify banks' commitment to CBK's instructions on these loans. CBK conducts a weekly follow-up of developments on the implementation of this law within its supervisory and regulatory role on banks, using the statistical data received from these banks through the Kuwait Banking Association.

Third: Major Banking Operations Performed by CBK:

Available data indicate that currency in circulation reached KD 1,458.6 million at the end of FY2014/15 against KD 1,488.9 million at the end of the previous fiscal year, i.e. a decrease of KD 30.3 million or 2%. The highest balance of currency in circulation during

FY2014/15 was KD 2,008.3 million at the end of July 2014, while the lowest balance was KD 1,423.9 million at the end of January 2015.

Furthermore, CBK continued its efforts during FY2014/15 towards ensuring the high quality of banknotes in circulation by withdrawing and destroying banknotes that are no longer fit for circulation in accordance with CBK's minimum quality requirements, and fighting counterfeit and forgery of banknotes in collaboration with other government bodies. In this regard, the value of withdrawn and destroyed banknotes reached KD 742.5 million during FY2014/15.

On 29 June 2014, CBK put into circulation the new sixth issue of Kuwaiti banknotes of all denominations. The release of this issue of currency notes was accomplished efficiently and smoothly within arrangements taken by CBK in collaboration with banks and other concerned authorities. It is worth mentioning that the Council of Ministers endorsed, in its session held on 11/6/2013, the recommendation of CBK's Board of Directors regarding the new sixth issue of Kuwaiti banknotes, including designs, colors and other security and technical specifications. Furthermore, the new release of banknotes had been assimilated into public circulation quickly and smoothly since the releasing date, where the percentage of this issue exceeded 90% of total currency in circulation at the end of March 2015. CBK is currently in the process of taking necessary measures to withdraw the fifth issue of banknotes from circulation under the provisions of Law No. 32 in 1968 concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business and amendments thereof.

With regard to interbank settlements carried out through CBK using Kuwait Automated Settlement System for Inter-participant Payments (KASSIP), the value of these settlements amounted to KD 278.14 billion during FY2014/15 against KD 217.89 billion during the previous fiscal year, i.e. a rise of KD 60.25 billion or 27.7%. As for the transactions made by CBK's clearing room, the total value of these transactions during FY2014/15 increased to KD 13.53 billion for 2,445.8 thousand transactions (cheques) i.e.

an average value of KD 5,530.1 transactions against KD 13.48 billion for 2,360 thousand transactions (cheques) i.e. an average value of KD 5,711.7 transactions during FY2013/14.

CBK also made 10,112 bank transfers in favor of ministries and different government institutions totaling KD 1,955.5 million during FY2014/15 against 10,185 bank transfers totaling KD 1,720.4 million during FY2013/14. External bank transactions carried out by CBK in favor of ministries and other government bodies in the form of documentary credits and payable bills and drafts during FY2014/15 are detailed in the following table:

Particulars	No.	Value (in KD)
First- Documentary Credits:		
1) <u>Opened</u>		
- Local	3	17,301,927
- Foreign	25	43,874,542
2) <u>Paid</u>		
- Local	3	2,748,381
- Foreign	<u>119</u>	<u>67,253,520</u>
3) <u>Amended</u>		
- Local	-	-
- Foreign	21	-
Second- Collection Transactions:		
<u>Bills for Collection</u>		
a-Incoming	-	-
b-Paid-up	-	-
Third- Drafts for Collection	44	41,216

Fourth- Labor Force at CBK:

In fulfillment of work requirements, CBK's total staff numbers reached 954 at the end of FY2014/15, of whom 834 (87% of the total) are Kuwaitis. The Bank appointed 33 new staff during FY2014/15 of whom 24 (73% of total recruits) are Kuwaitis.

CBK has continued to participate in regional, Arab and international conferences and meetings addressing economic, financial, banking and IT topics, to which 64 staff were delegated to attend 127 conferences and meetings abroad during FY2014/15.

In fulfillment of staff training needs and work requirements, CBK in coordination with specialized training bodies have organized different programs, invited competent lecturers from within CBK, and delegated a number of CBK's staff to attend specialized programs, courses, seminars and workshops on banking, finance, economics, administration and IT as follows:

A- Inside Kuwait:

A total of 567 staff were delegated during FY2014/15 to attend 159 courses in coordination with local bodies including the Institute of Banking Studies, Arab Planning Institute, Kuwait Institute for Scientific Research, a number of local banks and financial institutions, specialized private local training bodies, audit bureaus, and Civil Service Commission.

B- Outside Kuwait:

A total of 159 staff were delegated during FY2014/15 to attend 107 regional, Arab and international training programs in coordination with a number of training bodies and institutions specialized in banking, finance and economics including the Economic Policy Institute - Arab Monetary Fund, Union of Arab Banks, Arab and foreign central banks, International Monetary Fund, World Bank, Bank of England and U.S. Federal Reserve System.

CBK has given appointments to a number of fresh Kuwaiti graduates holding university diploma/degrees. Fresh graduates are trained and prepared to fulfill different jobs in the CBK, according to individual specialization, by enrolling them in training programs including orientation, specialized and English language programs organized in

collaboration with the Institute of Banking Studies. As of July 2008, CBK has prepared a number of tests including technical, behavioral, emotional intelligence and general information questions for CBK job applicants. During FY2014/15, 43 fresh university graduates and 4 diploma holders were selected for internship programs at CBK. During the same fiscal year, 7 interns of university and applied institute graduates were employed by CBK after completion of the training programs.

CBK has also continued to offer postgraduate study scholarships (Masters and Ph.D.) for its employees in prestigious local and international universities. During FY2014/15, 6 employees who met the requirements to complete postgraduate studies were approved for scholarships.

Within this context, CBK took the necessary procedures and organized the process of study completion after the official working hours. During FY2014/15, 10 employees were approved for study completion according to the terms and conditions applicable in the Bank.

CBK in collaboration with other local banks has participated, for the fourth consecutive year, in a program for recruiting and training Kuwaiti graduates within the banking sector. This annual program covering theoretical and practical training inside and outside Kuwait is organized by the Institute of Banking Studies under the supervision of the CBK. During FY2014/15, 4 interns of university graduates were trained for CBK, and 3 graduates for every local bank participating in the fourth batch of this program.

CBK has also continued to temporarily train university and institute students in a number of its administrations and offices. During FY2014/15, 5 students from the College of Business Administration - Kuwait University, 8 students from the Public Authority for Applied Education and Training - Faculty of Business Studies, and 3 students from the American University of Kuwait, were trained.

Within CBK's efforts to elevate the level of employees performance and enhance their sense of loyalty by motivating them to put further efforts towards reaching high-efficiency and outstanding performance, CBK has organized the "Distinguished Employee of the year 2014" competition. For the purpose of this competition, CBK has adopted a set of performance and evaluation criteria to select CBK's distinguished employees. The winners were declared and awarded in a celebration held on 21 April 2015.

Fifth- Other Activities:

CBK continued its efforts during FY2014/15 towards developing and upgrading the infrastructure of information technology in line with latest IT breakthroughs. Main efforts included the execution of updating CBK's Core Banking systems. Regarding the Automated Cheque Clearing System which enables interbank electronic cheque clearing in Kuwait, the execution and testing stages were completed and the System will be valid during the second quarter of 2015.

On another front, auditing the Quality Management System (ISO 9001: 2008) was completed during FY2014/15. It aims to measure, analyze and improve the operations and procedures followed in the IT sector and in the designing, developing, reviewing and monitoring of the product or service. In addition, Kuwait Interbank Offered Rate (KIBOR) system was completed and transferred to the production environment. This system aims to calculate the average interest rate on local interbank deposits and extract the KIBOR electronically. Developing local Liquidity System (LIQ) was also completed in order to receive liquidity data electronically from authorities subject to CBK's supervision and include it into the Traditional Banking System - TBS.

During FY2014/15, CBK organized several events within its keenness to enhance its communication with elements of the economic and financial society, such as holding a press conference under the title "Ensuring Monetary Stability and Financial Security in

Kuwait” on 20 April 2014, as well as organizing the media campaign of the sixth issue of KD currency notes in commercial complexes. In addition, CBK organized the 60th meeting of the Committee of Governors of Monetary Agencies and Central Banks in the Gulf Cooperation Council (GCC) countries, and the 30th meeting of the Board of Directors of the Gulf Monetary Council on 24th October 2014. CBK also organized a joint meeting on 25 October 2014 between the Financial and Economic Cooperation Committee, the Committee of Governors of Monetary Agencies, Central Banks in the GCC countries, and the General Director of the International Monetary Fund. On 16 November 2014, CBK organized the information security forum titled “Securing Payments In The Cyber World” in collaboration with the Institute of Banking Studies. CBK also organized a school trip for “Rawdat Al-Naeem” to the Bank’s building on 11 March 2015.

CBK continued its efforts, during FY2014/15, in preparing and issuing statistical and analytical periodicals in both Arabic and English, and distributing it locally and worldwide for those who are interested in monetary, banking, financial and economic developments in the State of Kuwait, within CBK’s efforts for enhancing disclosure and transparency by expanding and enhancing the dissemination of data and information published. During FY2014/15 CBK launched its new website in both Arabic and English, which is designed to be an advanced web portal rich with information to serve researchers and other interested parties. It represents a communication channel with customers and website visitors.

- **CBK’s New Headquarter:**

During FY2014/15 CBK continued its efforts to complete the construction of CBK’s new headquarter. In this regard, The actual expenditures for this project during FY2014/15 reached KD 17.2 million of an approved budget of KD 26.9 million.

Sixth: The Central Bank of Kuwait
Balance Sheet and Profit & Loss Account
For the Fiscal Year Ended 31 March 2015

AUDITORS' REPORT

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

In our opinion, the financial statements give a true and fair view of the real financial position of the Bank on 31 March 2015 and of the results of its operations for the year then ended, in compliance with Law No. 32 of 1968 and amendments thereof.

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

WALEED A. AL-OSAIMI

LICENCE NO. 68 A

ERNEST & YOUNG

AL AIBAN, AL OSAIMI & PARTNERS

SAFI AL-MUTAWA

LICENCE NO. 138A

KPMG Safi Al-Mutawa & Partners

MEMBER FIRM OF KPMG INTERNATIONAL

30 April 2015

State of Kuwait

CENTRAL BANK OF KUWAIT

BALANCE SHEET AS ON 31 MARCH 2015**(AMOUNTS IN KD)**

Assets	Notes	31 March 2015	31 March 2014
Gold	2	31,736,361	31,736,361
Cash, Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions		695,101,770	199,287,348
Deposits and Investments in Foreign Currency	3	7,789,350,430	8,957,896,050
Other Assets	4	27,181,445	24,788,780
		<u>8,543,370,006</u>	<u>9,213,708,539</u>
Accounts Managed by CBK on behalf of the Government of the State of Kuwait, and Contra Accounts	10	2,501,112,000	2,579,581,765

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

CENTRAL BANK OF KUWAIT

BALANCE SHEET AS ON 31 MARCH 2015

(AMOUNTS IN KD)

Equity and Liabilities	Notes	31 March 2015	31 March 2014
Capital - Fully Paid Up		5,000,000	5,000,000
General Reserve Fund	5	295,000,000	295,000,000
Special Account	6	54,083,902	100,091,646
Profit for the Year		30,046,262	19,399,944
Currency in Circulation	7	1,458,576,542	1,488,932,063
CBK Bonds Issued	8	1,925,000,000	1,950,000,000
Government Accounts		672,372,448	703,833,086
Accounts of Banking System Liquidity Support		-	-
Local Banks' Current Accounts and Deposits with CBK	9	3,797,744,441	4,266,953,908
International Institutions		34,979,336	4,960,364
Collateral against Documentary Credits	10	79,600,679	91,431,152
Other Liabilities	11	190,966,396	288,106,376
		8,543,370,006	9,213,708,539
Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts	10	2,501,112,000	2,579,581,765

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

CENTRAL BANK OF KUWAIT

**PROFIT & LOSS ACCOUNT FOR
FY ENDED 31 MARCH 2015
(KD)**

	Notes	31 March 2015	31 March 2014
Interest & Revenues from Investments		88,555,348	81,320,623
Expenses of Interest and Commissions		(48,276)	(101,293)
		88,507,072	81,219,330
Other Revenues		818,442	366,094
Operating Revenues		89,325,514	81,585,424
Operating Expenses	12	(59,279,252)	(62,185,480)
Net Profit for the year		30,046,262	19,399,944
Disposed of according to Article 17 of Law No. 32 of 1968 and its amendments, as follows:			
to the Government's Account		-	19,399,944
to the General Reserve Fund's Account	5	30,046,262	-

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

NOTES TO THE FINANCIAL STATEMENTS
(31 MARCH 2015)

1- Activities:

The Central Bank of Kuwait (“The Bank”) is incorporated by Law No. 32 of 1968 and amendments thereof. CBK is a public institution with an independent juristic personality, and is entrusted with issuing the local currency on behalf of the State of Kuwait, ensuring the stability of the Kuwaiti currency and its free convertibility into other foreign currencies, drawing the monetary and credit policies, and the supervision of the banking and financial system, in addition to serving as a banker and financial advisor to the Government.

2- Significant Accounting Policies:

The financial data were prepared in accordance with Law No. 32 of 1968 and amendments thereof. The applied significant accounting policies are as follows:

a- Gold:

In accordance with the Amiri Decree of 4 July 1978, gold is valued at KD 12.500 per fine ounce.

b- Local Bonds and Public Debt Instruments:

Public Debt Instruments are recorded at purchase cost.

c- Cost of Money Market Operations:

The cost arising from intervention operations in the money market (CBK Bonds issued, local banks deposits and tawarruq operations) is charged to the Ministry of Finance Account/cost of supporting money market operations, according to the agreement between the Bank and the Ministry of Finance (Note 11).

d- Revenue Recognition:

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

e- Capital Expenditure:

Capital expenditure is charged to operating expenses in terms of gains or losses in the year of authorization.

f- Foreign Currencies:

In accordance with Article 48 of Law No. 32 of 1968 and amendments thereof and the Amiri Decree of 4 July 1978, all cash assets and liabilities in foreign currencies are revaluated at the exchange rates prevalent on the date of the preparation of the balance sheet, and the resulting gains or losses are taken to the balance sheet's special account (Note 6).

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

	<u>31 March 2015</u>	<u>31 March 2014</u>
Deposits with Foreign Banks and Institutions	7,784,847,430	8,953,672,050
CBK's Facilities to the International Bank for Reconstruction and Development	4,503,000	4,224,000
	<u>7,789,350,430</u>	<u>8,957,896,050</u>

4- Other Assets (KD):

	31 March 2015	31 March 2014
Interest Receivable on Deposits and Other Assets	12,865,836	9,990,996
Investments (KD)	2,791,210	2,791,210
Prepaid Expenses	381,403	2,686,245
Advance Payments	422,551	2,652,846
Other Debit Balances	10,720,445	6,667,483
	<u>27,181,445</u>	<u>24,788,780</u>

5- General Reserve Fund:

In accordance with Article 17, paragraphs 3 (a) and (b) of Law No. 32 of 1968 and amendments thereof, the net profits of the CBK shall be paid into the General Reserve Fund until the balance of the fund amounts to twenty-five million Kuwaiti Dinars, unless the Board of Directors recommends and the Minister of Finance approves further increases in the balance of the Fund. In 1985, the Board's recommendation to increase the balance of the fund to KD 179 million was approved by the Minister of Finance and Economy. In accordance with the Board's decision dated 5 May 2003, and the approval of the Minister of Finance dated 7 May 2003, it was agreed to increase the balance of CBK General Reserve Fund by KD 116 million to KD 295 million, by transferring half of CBK net annual profits to the Fund balance.

In accordance with the Board's decision dated 21 October 2014 and the approval of the Minister of Finance dated 29 October 2014, it was agreed to increase the balance of CBK General Reserve Fund by KD 705 million to one billion Kuwaiti Dinar, by transferring all of CBK net annual profits to the Fund balance.

6- Special Account (KD):

	<u>31 March 2015</u>	<u>31 March 2014</u>
Balance at the Beginning of the Year	100,091,646	401,629,136
Net difference in foreign currency, resulting from revaluation of cash assets and liabilities in foreign currencies	(46,007,744)	(301,537,490)
Balance at the end of the Year	<u>54,083,902</u>	<u>100,091,646</u>

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

7- Currency in Circulation (KD):

	<u>31 March 2015</u>	<u>31 March 2014</u>
Net Issued Currency	3,037,089,260	2,128,373,360
Less: Currency in the CBK's Vaults	(1,578,512,718)	(639,441,297)
	<u>1,458,576,542</u>	<u>1,488,932,063</u>

Net issued currency represents the total printed cash minus destroyed cash.

Currency in the CBK's vaults includes cash prepared for circulation (withdraw and deposit), invalid cash prepared to be destroyed, and the strategic cash reserve.

On 19 April 2015, decision No. (37/405/2015) was issued regarding the withdrawal of all denominations of Kuwaiti currency notes of the previous issue against paying its basic value no later than 1 October 2015.

8- Issued Bonds:

CBK bonds are negotiable and only purchased by local banks and local investment companies subject to CBK's supervision. The CBK uses these bonds in domestic liquidity management.

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

	31 March 2015	31 March 2014
Current Accounts	806,295,399	944,192,014
Deposits	420,000,000	540,000,000
Tawarruq Operations (withdrawals)	2,571,449,042	2,782,761,894
	<u>3,797,744,441</u>	<u>4,266,953,908</u>

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

	31 March 2015	31 March 2014
a- Accounts Managed by the CBK on Behalf of the Government of Kuwait	2,419,824,674	2,483,109,613
b- Contra Accounts:		
Documentary Credits	78,364,373	93,513,857
Memorial Banknotes and Coins	2,922,953	2,958,295
	<u>81,287,326</u>	<u>96,472,152</u>
Collections According to Law No. 41 of 1993	2,501,112,000	2,579,581,765
	<u>2,501,112,000</u>	<u>2,579,581,765</u>

On 31 March 2015, deposits of KD 79,600,679 (KD 91,431,152: 2014) were held against the documentary credits referred to above.

11- Other Liabilities (KD):

	<u>31 March 2015</u>	<u>31 March 2014</u>
Payable Expenses	14,734,658	13,065,695
Other Credit Balances	174,900,158	269,897,060
Ministry of Finance - Cost of Supporting Money Market Operations (Note 2)	1,331,580	5,143,621
	<u>190,966,396</u>	<u>288,106,376</u>

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

The Balance of Ministry of Finance - Cost of Supporting Money Market Operations represents the remaining funds transferred from the Ministry of Finance after charging the cost of supporting money market operations carried out by CBK according to the agreement between CBK and the Ministry of Finance.

12- Operating Expenses (KD):

	<u>31 March 2015</u>	<u>31 March 2014</u>
Staff Costs	30,214,954	33,203,170
Administrative and Computer Operation Costs	5,856,873	5,352,105
Purchase of Furniture and Equipment	457,549	34,986
Production and Shipment of Currency	2,559,935	5,843,953
Miscellaneous	2,985,143	2,314,021
Construction Costs	17,204,798	15,437,245
	<u>59,279,252</u>	<u>62,185,480</u>

13- Promissory Notes Held:

On 31 March 2015, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 448,130,979 (KD 436,722,028: 2014).

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