



Central Bank of Kuwait



Annual Report Forty-Fourth 2015-2016

CENTRAL BANK
OF KUWAIT

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TWENTY



بنك الكويت المركزي
Central Bank of Kuwait



THE FORTY-FOURTH ANNUAL REPORT

FOR THE FISCAL YEAR 2015/2016



**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 2015 / 2016



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Ministry of Finance
Member



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Member



Mr. Osamah Mohammad Al-Nisf

Member

In the Name of Allah, Most Gracious, Most Merciful

Introduction

It gives me great pleasure to introduce the 44th Annual Report of the Central Bank of Kuwait (CBK) for the Fiscal Year (FY) 2015/16 including the Auditors' Report on CBK's financial statements as of 31st March 2016. As in the previous years, this Report begins with an overview of the most salient monetary and banking developments in the Kuwaiti economy during FY2015/16. The Report also highlights the main procedures and operations carried out by CBK's departments and offices in various fields relating to monetary and banking affairs during the year, including CBK's efforts to promote its supervision and oversight over the domestic banking and financial sector.

In this context, CBK's efforts were focused during FY2015/16 on strengthening the foundations of monetary and financial stability in the State of Kuwait through formulating and implementing monetary policy and developing methods of supervision and oversight of the banking and financial sector, aimed at boosting the bases of economic growth in the country and enhancing an existing supportive environment with the aim of promoting efficient and professional performance of the domestic banking and financial sector.

In terms of monetary developments, Money Supply in its Broad Definition (M2) increased by 4.1% at the end of FY2015/16 compared with the end of the previous fiscal year, within which the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors, increased by 8.4% to reach KD 33,689.4 million at the end of FY2015/16 compared to KD 31,077.8 million at the end of the previous fiscal year. Moreover, residents' private sector deposits with local banks increased by 4.2% to KD 34,950.0 million at the end of FY2015/16 against KD 33,543.9 million at the end of the previous fiscal year. Likewise, the aggregate balance sheet of local banks increased to

KD 59,791.8 million at the end of the mentioned fiscal year against KD 56,734.4 million at the end of 2014/15, i.e. an increase of KD 3,057.4 million or 5.4%.

The CBK has continued its efforts in the area of oversight and supervision of registered local banking and financial system units during FY2015/16, with the aim of strengthening their financial position in line with the international best practices for effective banking supervision, thereby reinforcing financial stability and enhancing banks' ability to effectively manage risk and withstand economic shocks and stress situations. In this context, the CBK has continued to implement Basel Committee's latest banking supervision standards, known as Basel III Set of Reforms, issuing on October 2015 regulations on the Net Stable Funding Ratio (NSFR) Standard for local conventional and Islamic banks. It is worth noting that the CBK has been among the first central banks to implement other Basel standards including the Capital Adequacy Ratio (CAR) Standard, Financial Leverage Ratio (FLR) Standard and Liquidity Coverage Ratio (LCR) Standard during 2014 and 2015. Furthermore, CBK has been keen on verifying the banking and financial sector's commitment to execute supervision and oversight instructions and implement sound banking and financial practices ensuring the reinforcement of their financial position and competitive efficiency. Additionally, the CBK has been persistent on ensuring the banking and financial sector's implementation of sound governance standards, contributing to the enhancement of the basic components of the sector's strong financial position, improving its performance, and achieving financial stability.

Furthermore, the CBK has continued its efforts during FY2015/16 to improve the competency of its human resources and upgrade staffs' academic and professional capabilities by offering higher study scholarships at prestigious international universities, and through local/international specialized training programs contributing to the enhancement of their performance and competency in the CBK, whilst maintaining the high caliber of existing Kuwaiti employees, so as to reinforce the Bank's capability to carry

out tasks entrusted to it. Concurrently, the CBK, in collaboration with the Kuwaiti banks and the Institute of Banking Studies, has continued in its efforts to improve the capacity and skills of national staff through various programs, the most notable of which are: the Master's Degree scholarships program, hiring and training fresh graduates on working in the banking sector and developing executive leadership in partnership with the Harvard Business School.

On the other hand, the CBK has continued its endeavors during FY2015/16 aimed at updating and upgrading its systems in various departments and offices, as well as designing and applying technical programs ensuring continuity of CBK's operations under different circumstances, and providing enhanced client services in line with the most recent international standards in this area. The CBK has also continued its efforts during FY2015/16 aimed at developing its new website in both Arabic and English. The CBK's new website is designed to be an advanced and informative web portal 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. In addition to the above-mentioned, workshops on the linkage programs between the main banking operations systems and other relevant CBK systems have been completed during FY2015/16. Furthermore, the mentioned fiscal year witnessed the completion of the third and last phase of the IBAN (International Bank Account Number) project, as well as the ACS (Automated Clearing System) project in the State of Kuwait.

In the same context, CBK has performed several activities during FY2015/16 within its framework to strengthen its interaction with the components of the economic and financial society, in response to the accelerating developments witnessed by the traditional and new media industry. For this purpose, the CBK has adopted a balanced media policy that highlights its accomplishments and familiarizes the community and other interested individuals, with its pivotal role in maintaining monetary and financial stability, as well as

developing and strengthening supervision of the banking system. In this respect, and in the context of expanding its electronic publishing base, the CBK has created its own social networking accounts on Twitter, Instagram and YouTube, in an effort to keep pace with the rapid developments in cyber media.

In light of the successful release of the new sixth issue of KD banknotes, and after the percentage of this issue exceeded 90% of total currency in circulation, the CBK has withdrawn the fifth issue of KD banknotes from circulation during FY2015/16. Holders of the fifth issue of KD banknotes shall be able to exchange these banknotes until 18/4/2025, in accordance with the laws issued in this regard. In the framework of the enlightening and informative campaigns, the CBK has contributed during FY2015/16 to the campaign concerning the withdrawal of the fifth issue of KD banknotes from circulation, and has signed contracts for the production of film materials on CBK's efforts in amending the rules and basis for granting consumer/installment loans, as well as issuing the Consumers Protection Manual and the Physically Challenged Manual. For maintaining its prestige and outstanding reputation at all levels, the CBK has initiated its institutional identity project during the mentioned fiscal year to cope with the inclusive developments and modernization taking place in CBK's business. These endeavors are also manifested in CBK's sustained efforts to organize and prepare for the relocation to the new headquarters, a creative architecture that attests to the developmental revival in the State of Kuwait.

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 CBK has continued its efforts during FY2015/16 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 banking and financial sector, developing oversight and supervision systems and programs applied to the sector's units with the intention of supporting the growth of the national economy on solid foundations, and ensuring monetary and financial stability in the country.

Within this framework, CBK's Annual Plan projects for the year 2015/16 emphasize CBK's role as stated above, including the following:

- 1. To continue efforts to formulate 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 in order to ensure the availability of resources necessary to meet the financing needs of different economic activities as well as reduce capital outflows;**

- 4. to intensify the oversight and supervision efforts over the domestic 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 banking and financial sector to execute the CBK's supervisory regulations and implement sound banking and financial practices;**
- 6. to sustain efforts to develop the supervisory and oversight systems and regulations over the banking and financial sector in order to reinforce its strong financial position and enhance its role in serving the national economy;**
- 7. to continue efforts to promote competitive efficiency in the banking and financial sector; and**
- 8. to adopt and implement sound governance standards by the banking and financial sector, contributing to the enhancement of the basic components of the sector's strong financial position, improving its performance, and achieving financial stability.**

During FY2015/16 the CBK has continued to implement the projects encompassed in the above-mentioned Annual Plan. These are ongoing projects in relation to the core objectives sought by the CBK. This part of the Report highlights the CBK's efforts during FY2015/16 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 formulating 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 competitiveness and attractiveness 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 reduce capital outflows.**

This part of the Report highlights the key developments in the State of Kuwait's major monetary indices and aggregates during FY2015/16 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 on Kuwait's major monetary indices and aggregates during FY2015/16 indicate the following developments:

A-Money Supply:

Money Supply in its Broad Definition (M2) increased to KD 36,431.7 million at the end of FY2015/16 against KD 35,002.5 million at the end of FY2014/15, i.e. an increase of

KD 1,429.2 million or 4.1% compared with an increase of KD 1,215.0 million or 3.6% 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	2014/15	2015/16	Change in (2) over (1)	
	(1)	(2)	Value	(%)
Money Supply (M2)	35002.5	36431.7	1429.2	4.1
Money (M1) of which:	9597.8	9658.8	61.0	0.6
Sight Deposits	8139.2	8177.1	37.9	0.5
Quasi Money	25404.7	26772.7	1368.1	5.4
KD Deposits (other than sight deposits)	21598.1	23116.8	1518.7	7.0
FC Deposits	3806.6	3656.1	-150.5	-4.0

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 banks⁽¹⁾ at the end of FY2015/16 compared with the end of the previous fiscal year, the mentioned rise in M2 of KD 1,429.2 million or 4.1% came as a result of the increase in net domestic assets of those institutions of KD 779.4 million and net foreign assets of the mentioned institutions of KD 663.5

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 FY2015/16.

million. The mentioned rise in net domestic assets of those institutions was due to the increase in local banks’ claims on the private sector of KD 2,578.9 million, and the rise in CBK’s and local banks’ claims on the government of KD 690.8 million, and the increase in net domestic assets under item “other” of KD 1 108.7 million. 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 67.9 million, and the increase in net foreign assets of CBK of KD 595.6 million.

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

End of Period	FY2014/15	FY 2015/16	Change in (2) over (1)	
	(1)	(2)	Value	%
Net Domestic Assets:	17938.1	18717.4	779.4	4.3
-Claims on the Private Sector	33046.0	35625.1	2578.9	7.8
-Claims on the Government (Net)	4317.5	5008.3	690.8	16.0
-Other (Net)	10790.4	11899.4	1108.7	10.3
Net Foreign Assets:	16786.5	17450.0	663.5	4.0
-CBK	8481.2	9076.8	595.6	7.0
-Local Banks	8305.3	8373.2	67.9	0.8

Source: Central Bank of Kuwait.

B- Domestic Interest Rates:

CBK’s Discount Rate plays a pivotal role that 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 raised its Discount Rate, during FY2015/16, by 25 basis points in December 2015 (from 2% to 2.25%). It was the first rise in the Discount Rate following a reduction of 50 basis points (from 2.5% to 2%) in October 2012. This rise in the Discount Rate came after the US Federal Reserve increased the target Federal Funds rate by a quarter-percentage point.

In the same context, as for interest rates on customers' KD and US dollar deposits with local banks, the average interest rates on customers' KD time deposits witnessed a rise during FY2015/16 compared with its levels during the previous fiscal year. Specifically, the average interest rates on KD time deposits of one-month and three-month maturity increased to 0.698% and 0.869% respectively during FY2015/16, against 0.599% and 0.788% for the two mentioned terms respectively during the previous fiscal year.

On the other hand, the average interest rates on US dollar time deposits with local banks of one-month and three-month maturity increased during FY2015/16 reaching 0.182% and 0.296% respectively, against 0.153% and 0.272% 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 FY2015/16 reached 0.516 percentage point and 0.573 percentage point respectively, with a margin of 0.446 and 0.515 percentage point respectively in favor of KD deposits, which was also in favor of KD deposits during FY2014/15.

On the other hand, the average interest rates on local interbank KD deposits of various maturities increased during FY2015/16 compared with the previous fiscal year. Specifically, the average interest rates on local interbank KD deposits of one-month

maturity increased reaching 1.042% against 0.853% for the mentioned term during the previous fiscal year FY2014/15. Meanwhile, the average interest rates on public debt instruments on Kuwaiti Treasury Bonds of one year maturity increased to 1.250%, from its previous fiscal year level of 1%, and the average interest rates on Kuwaiti Treasury Bonds of two years maturity increased to 2% during FY2015/16 .

C- The KD Exchange Rate:

During FY2015/16, CBK has 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	FY2014/15				2015/16			
	Highest Price	Lowest Price	End of Period	Average	Highest Price	Lowest Price	End of Period	Average
Kuwaiti Dinar (fils)	300.0	280.50	299.60	287.83	304.4	298.25	302.15	302.18
Pound Sterling	0.6782	0.5828	0.6722	0.6190	0.7217	0.6289	0.7025	0.6630
Euro	0.9529	0.7181	0.9180	0.7854	0.9474	0.8664	0.8936	0.9061
Swiss Franc	1.0196	0.8575	0.9616	0.9290	1.0310	0.9155	0.9744	0.9724
Japanese Yen	121.72	101.17	119.13	109.62	125.60	111.15	113.59	120.15

Source: Central Bank of Kuwait.

In this regard, the average exchange rate of the US dollar against the KD for FY2015/16 reached 302.18 fils (per US dollar) against 287.83 fils during the previous fiscal year, i.e. an increase in US dollar’s exchange rate of 14.355 fils or 5%. The difference between the highest (304.4 fils) and the lowest (298.25 fils) exchange rate of the US dollar against the

KD during FY2015/16 reached 2.1%. Conversely, the exchange rate of the US dollar witnessed significant fluctuations against other major currencies during FY2015/16, where the difference between the highest and the lowest exchange rates of the US Dollar reached 14.8% against the Pound Sterling, 12.7% against the Japanese Yen, 12.6% against the Swiss Franc and 9.4% against the Euro.

D- Bank Credit:

Balances of the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors during FY2015/16 increased by KD 2,611.6 million or 8.4% to reach KD 33,689.4 million at the end of the mentioned fiscal year compared to KD 31,077.8 million at the end of FY2014/15. This rise resulted, basically, from the rise in credit facilities extended to Personal Facilities (KD 1,583.6 million or 12.5%), Industry (KD 301.5 million or 17.4%), Crude oil and gas (KD 227.1 million or 54.2%), Trade (KD 179.5 million or 6.2%), Construction (KD 45.9 million or 2.4%), Non-bank Financial Institutions (KD 39.7 million or 2.9%), and Public Services (KD 20.6 million or 24.0%). On the other side, cash credit facilities extended by local banks to the Real Estate sector declined (by KD 10.2 million or 0.1%) and Agriculture and Fishing (by KD 1.2 million or 7.4%) at the end of FY2015/16 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	FY2014/15 (1)	2015/16 (2)	Change in (2) over (1)	
			Value	(%)
Total utilized cash credit facilities, of which:	31077.8	33689.4	2611.6	8.4
• Trade	2899.1	3078.6	179.5	6.2
• Industry	1735.0	2036.0	301.5	17.4
• Construction	1906.4	1952.3	45.9	2.4
• Non-bank Financial Institutions	1353.4	1393.1	39.7	2.9
• Personal Facilities	12633.2	14216.8	1583.6	12.5
• Real-Estate	7974.5	7964.3	(10.2)	(0.1)
• Oil and Gas	419.4	646.5	227.1	54.2

Source: Central Bank of Kuwait.

E- Domestic Liquidity:

CBK pursued managing levels of domestic liquidity during FY2015/16 in accordance with the economic, monetary and banking conditions in the country. 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.

In the same context, balances of time deposits of local banks with CBK, under the system of accepting deposits from local banks, decreased by KD 298.5 million or 10.0% to KD 2,692.9 million at the end of FY2015/16 compared to KD 2,991.4 million at the end

of FY2014/15. On the other side, CBK introduced 40 issues of CBK bonds during FY2015/16 with a total nominal value of KD 5,700 million. Meanwhile, 40 previous issues of these bonds with a total nominal value of KD 5,800 million matured during that fiscal year. Accordingly, the outstanding balance of CBK bonds decreased to KD 1,825 million at the end of FY2015/16 against KD 1,925 million at the end of the previous fiscal year, i.e. a decline of KD 100 million or 5.5%.

F- Public Debt Instruments:

The CBK manages the issuance of public debt instruments (Kuwaiti Treasury Bills and Treasury Bonds) on behalf of the Ministry of Finance. These instruments enable it to regulate the levels of domestic liquidity through primary market instruments, or through open market operations using secondary market instruments. Within this context, the CBK introduced 26 issues of Treasury Bonds, during FY2015/16, with a total nominal value of KD 1,300 million, while 27 previous issues of these bonds matured with a total nominal value of KD 1,350 million. Accordingly, the total outstanding balance of public debt instruments (Treasury Bills and Treasury Bonds) remained unchanged at the end of FY2015/16 at its previous fiscal year-end level of KD 1,587.3 million. The balance of public debt instruments held by local banks was KD 1,824 million (99.9%), and those held by other local institutions was KD 1 million (0.1%) at the end of FY2015/16.

- **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 59,791.8 million at the end of FY2015/16 against KD 56,734.1 million at the end of FY2014/15, i.e. a rise of KD 3,057.4 million or 5.4%. 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 2,578.9 million or 7.8% to KD 35,625.1 million at the end of FY2015/16 against KD 33,046.2 million at the end of FY2014/15. 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 2,611.6 million or 8.4% to KD 33,689.4 million at the end of FY2015/16 against KD 31,077.8 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 32.7 million or 1.7% to KD 1,935.7 million at the end of FY2015/16 against KD 1,968.4 million at the end of the previous fiscal year on the other.
- Local banks' claims on the CBK increased by KD 340.1 million or 6.0% to KD 6,048.0 million at the end of FY2015/16 against KD 5,708.0 million at the end of the previous fiscal year. This increase resulted from the rise in the balances of sight deposits with the CBK of KD 738.6 million or 93.3%, from KD 791.5 million to KD 1,530.1 million, and the decrease in time deposits with the CBK of KD 298.5 million or 10.0%, from KD 2,991.4 million to KD 2,692.9 million; and local banks' holdings of CBK Bonds of KD 100.0 million or 5.2%, from KD 1,925.0 million to KD 1,825.0 million.
- Total foreign assets of local banks increased by the equivalent of KD 150.9 million or 1.2% to KD 12,640.8 million at the end of FY2015/16 against KD 12,489.9 million at the end of the previous fiscal year. This rise resulted from the increase in the balances of credit facilities extended to non-residents of KD 263.8 million or 20.2%, foreign investments of local banks of KD 134.0 million or 3.7% and other foreign assets of

KD 204.0 million or 13.4% on the one hand, and the decrease in local banks' deposits with foreign banks of KD 293.4 million or 4.2% on the other.

- Local banks' claims on the government increased by KD 12.5 million or 0.8% to KD 1,579.6 million at the end of FY2015/16 against KD 1,567.1 million at the end of the previous fiscal year. These claims are local banks' holdings of public debt instruments.

On the Liabilities Side:

- Resident private sector deposits with local banks increased by KD 1,406.1 million or 4.2% to KD 34,950.0 million at the end of FY2015/16 against KD 33,543.9 million at the end of the previous fiscal year. This rise resulted primarily from the increase in the balances of KD deposits of KD 1,556.6 million or 5.2% to KD 31,293.9 million at the end of FY2015/16 against KD 29,737.3 million at the end of the previous fiscal year. Meanwhile, resident private sector deposits in foreign currency with local banks recorded a decrease of KD 150.5 million or 4.0% to KD 3,656.1 million at the end of FY2015/16 against KD 3,806.6 million at the end of the previous fiscal year.
- Foreign liabilities of local banks increased by (the equivalent of) KD 83.0 million or 2.0% to KD 4,267.6 million at the end of FY2015/16 against KD 4,184.6 million at the end of FY2014/15. This rise resulted from the increase in the other foreign liabilities of KD 188.3 million or 53.7%, and the decrease in the other non-residents' deposits of KD 57.6 million or 5.0% and the balances of non-resident banks' deposits by KD 47.7 million or 1.8% at the end of FY2015/16 compared with FY2014/15.
- Government deposits with local banks increased by KD 779.4 million or 15.0% to KD 5,991.6 million at the end of FY2015/16 against KD 5,212.2 million at the end of FY2014/15.

- Shareholders' equity with local banks increased by KD 204.7 million or 2.68% to KD 7,842.0 million at the end of FY2015/16 against KD 7,637.3 million at the end of FY2014/15.

The Aggregate Balance Sheet of Local Banks

(KD Million)

Items	Balances at the end of the year	
	2014/15	2015/16
Assets:		
Cash	277.9	264.2
Claims on CBK	5,708.0	6,048.0
Balances (demand deposits) with CBK	791.5	1,530.1
CBK Bonds	1,925.0	1,825.0
Time Deposits with CBK	2,991.4	2,692.9
Local Interbank Deposits	2,121.9	1,906.7
Claims on Government	1,567.1	1,579.6
Public debt instruments	1,567.1	1,579.6
purchasing debt bonds	-	-
Claims on Private Sector	33,046.2	35,625.1
Credit Facilities to Residents	31,077.5	33,689.4
Other Domestic Investments	1,968.4	1,935.7
Foreign Assets	12,489.9	12,640.8
Deposits with Foreign Banks	6,972.0	6,678.7
Credit Facilities to Non-Residents	1,305.8	1,569.6
Investments Abroad	3,658.5	3,792.6
Other Foreign Assets	553.6	600.0
Other Assets	1,523.4	1,727.4
Assets = Liabilities	56,734.4	59,791.8
Liabilities:		
Resident Private Sector Deposits	33,543.9	34,950.0
KD Deposits	29,737.3	31,293.9
Foreign Currency Deposits	3,806.6	3,656.1
Government Deposits	5,212.2	5,991.6
Local Interbank Deposits	2,109.9	1,787.6
Shareholders' Equity	7,637.3	7,842.0
Foreign Liabilities	4,184.6	4,267.6
Non-Resident Bank Deposits	2,674.5	2,626.8
Other Non-Resident Deposits	1,159.1	1,101.4
Other Foreign Liabilities	351.0	539.3
Other Liabilities	4,046.5	4,953.0
Contra Accounts:	13,404.5	15,176.2
Bank Guarantees	12,018.5	13,914.3
Documentary Credits	1,017.9	901.7
Bank Acceptances	368.1	360.2

Source: Central Bank of Kuwait.

- On the other hand, the balances of contra accounts with local banks reached KD 15,176.2 million at the end of FY2015/16 against KD 13,404.5 million at the end of FY2014/15, i.e. an increase of KD 1,771.7 million or 13.2%. These balances represent 25.4% of the aggregate balance sheet of local banks at the end of FY2015/16 against 23.6% at the end of FY2014/15.

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 frameworks 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 signed memorandum of understanding.

The aggregate balance sheet of local investment companies (conventional and Islamic) reached KD 9,909.3 million at the end of FY2015/16 (for 82 companies) against KD 10,489.3 million at the end of FY2014/15 (for 87 companies), i.e. a decline of KD 580.0 million or 5.5%. This decline reflects the decrease in the number of companies for which data have been compiled from 87 to 82. 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 foreign assets decreased by (the equivalent of) KD 290.9 million or 5.9% to KD 4,637.2 million at the end of FY2015/16 compared to KD 4,928.1 million at the end of FY2014/15.
- Total domestic investments dropped by KD 95.7 million or 3.9% to KD 2,359.6 million at the end of FY2015/16 compared to KD 2,455.3 million at the end of FY2014/15.
- Cash and balances with local banks decreased by KD 42.1 million or 8.3% to KD 464.5 million at the end of FY2015/16 against KD 506.6 million at the end of FY2014/15.
- The balances of customer financing dropped by KD 13.5 million or 1.5% to KD 892.8 million at the end of FY2015/16 against KD 906.3 million at the end of FY2014/15.

On the Liabilities Side:

- The balances of shareholders' equity decreased by KD 237.6 million or 5.2% to KD 4330.0 million at the end of FY2015/16 compared to KD 4567.6 million at the end of FY2014/15.
- Total foreign liabilities decreased by (the equivalent of) KD 176.9 million or 9.3% reaching KD 1,729.3 million at the end of FY2015/16 compared to KD 1,906.2 million at the end of FY2014/15.
- The balances of financing from residents increased by KD 1,808.6 million or 82.1% to KD 4,012.1 million at the end of FY2015/16 against KD 2,203.5 million at the end of FY2014/15.

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

Items	Balances at the end of the year	
	2014/15	2015/16
Assets:		
Cash and Balances with Local Banks	506.1	464.5
Customer Financing	906.3	892.8
<u>Local Investments</u>	<u>2,455.3</u>	<u>2,359.6</u>
Financial Investments	1,973.6	1,866.1
Non-financial Investments	481.8	493.5
Foreign Assets	4,928.1	4,637.2
Other Assets	1,693.1	1,555.4
Assets=Liabilities	10,489.3	9,909.3
Liabilities:		
Shareholder's Equity	4,567.6	4,330.0
Financing from Residents	2,203.5	4,012.1
Bonds and Financing Sukuk	49.9	25.5
Foreign Liabilities	1,906.2	1,729.3
Other Liabilities	1,762.1	1,482.6
Number of Companies	87	82

Source: Central Bank of Kuwait.

The balances of contra accounts (off-balance-sheet items) data represent an important side of local investment companies' (conventional and Islamic) activity in extending several financial services to resident/non-resident clients. The balances of contra accounts of those companies reached KD 18,518.3 million at the end of FY2015/16 (for 82 companies) against KD 19,641.6 million at the end of FY2014/15 (for 87 companies), i.e. a decrease of KD 1,123.3 million or 5.7%.

Second- CBK's Supervisory Efforts:

CBK's supervisory and oversight efforts over the listed banking and financial sector units continued during FY2015/16 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 banking and financial practices.
- Sustaining the efforts to develop the supervisory and oversight systems and instructions concerning banking and financial sector units to strengthen their financial position and fulfill their role in the national economy.
- Continuing to improve competitive efficiency in the banking and financial 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 there are routine works carried out by the CBK -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 CBK as part of the above-mentioned projects, other than CBK's routine work, as well as key regulations, circulars and controls issued for the banking and financial units under its supervision during the mentioned FY2015/16 are addressed below with a brief description of the objectives thereof:

- Within the framework of adopting advanced supervising methods in line with the international supervisory standards, banks are requested to conduct semiannual financial stress testing and Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the detailed forms and annexes which show the approaches adopted by each bank and results of the stress testing exercised under hypothetical negative scenarios of different scale of severity designed, separately, by the CBK and the banks. Banks' submitted reports and related studies and discussions have revealed the strength of their financial positions and ability to face shocks. In light of the decline in oil prices during the second half of 2014, and its impact on the economic and financial status, CBK upgraded stress testing scenarios taking into consideration these developments and their impacts on the banking sector, and issued a circular to Kuwaiti banks on 31/12/2014 requesting them to prepare their tests over a one-year horizon. These tests have revealed banks' high ability to face external shocks.
- In the context of risk-based supervisory inspection, CBK has continued to execute inspection task on banks using advanced methods focusing on quantitative and qualitative evaluation of banks' activity components according to CAMEL BCOM mechanism. This mechanism has also been implemented in the field of anti-money laundering and financing terrorism.
- In light of CBK's concern to monitor local banks' compliance with the best international standards and practices in order to reduce operational risks, CBK implemented the plan regarding operational risk-based supervision related to information technology in local banks that encompasses three stages extending from February 2014 to January 2017.
- As part of CBK's efforts to implement the international supervisory standards, immune the banking system and improve its ability to resist shocks, CBK has completed the implementation of Basel Committee's supervisory standards known as Basel III set of reforms. CBK's Board of Directors approved, in its session held on 25/10/2015, the

implementation of Net Stable Funding Ratio (NSFR) standard instructions for conventional and Islamic local banks. Banks must comply, continually, with the required minimum net stable funding and the disclosure requirements starting from 1/1/2018. During the current period, CBK must be provided with NSFR standard's reports (for follow up) starting from 1/1/2016. Thereby, all Basel III set of reforms would have been implemented represented by the Capital Adequacy standard, Leverage Ratio (LR) standard and two standards of liquidity which are: Liquidity Coverage Ratio (LCR) standard and NSFR standard. This places the State of Kuwait at the forefront of the countries applying these standards.

- In the context of CBK's monitoring efforts of credit and financing portfolio of banks in order to verify its quality, CBK continued to direct the banks to monitor their credit and financing portfolio performance, including applying banking measures regarding writing-off bad debts. Consequently, the percentage of nonperforming cash debt to total monetary facilities portfolio of Kuwaiti banks declined to 2.36% as of 30/9/2015.
- The CBK's Board of Directors decided in its meeting on 5/7/2015 to introduce amendments to the regulations issued regarding the rules and basis for granting consumer loans and other installment loans by banks and investment companies, emphasizing the concept of disclosure and transparency in financial and banking transactions to various customers, and in line with CBK's attention given to financial inclusion through the delivery of banking services to all segments of society. In order to ensure proper implementation of CBK's instructions a meeting was held on 22/9/2015 with all Kuwaiti banks where they agreed to prepare a media plan and educate customers in this regard. In addition, separate meetings were held with all Kuwaiti banks during the period 18-22/10/2015, where requirements and contents of the media plan were explained in detail such as advertising in newspapers, social networking sites and banks' websites in order to educate and inform customers about the terms and conditions of consumer and installment loans.

- Within the framework of CBK's completion of its issued instructions to banks regarding promoting disclosure and transparency in financial and banking transactions, and providing a suitable environment for protecting customer rights within a balanced relationship that provides protection for the banking sector and its reputation which may arise due to noncompliance with the professional banking conduct controls, CBK issued on 5/7/2015 Consumers Protection Guide Instructions. The issuance of these instructions came as a result of the increasing international concern, over recent years, regarding consumer financial protection, after the latest global financial crisis, and the witnessed developments of financial services and instruments including the expansion of electronic services, and the increasing possibilities of risk transfer to customers in various sectors especially in the case of weak financial knowledge and awareness of these customers. Moreover, the Manual addresses procedures and ways of improving Customer Protection Unit at banks, as well as identifies means and mechanisms used to increase financial awareness of customers and expand financial inclusion in the country, in addition to many other banking business topics related to customer protection.

Within this context, banks were requested to include in their annual plan their own planned financial awareness and education activities, as well as mechanisms and means needed. In addition, banks were requested to include in their semi-annual plan submitted to CBK related to retail and corporate sectors development, their achieved parts of the previously mentioned plan regarding financial awareness, education and inclusion.

- As part of the attention given by CBK to customers with special needs and facilitating banking services provided to this segment of society in order to promote financial inclusion, and in light of examining banking services offered to such customers, whether blind or other, CBK's Board of Directors approved, in its session held on 5/7/2015, the instructions regarding banking services provided by Kuwaiti banks to customers with special needs. These instructions include a set of principles and practices related to banking services provided to all customers with special needs in general, and a special

set of principles and practices for customers with low hearing and vision in particular to allow them to benefit from all banking products and services through necessary banking mechanisms, and at no additional cost. For example, banks should designate a branch (minimum) in each governorate for providing banking services to customers with special needs alongside its normal work, and provide that branch with (at least) one special features ATM, for example a talking ATM with Braille keypads. Banks should also ensure equality for such customers in managing their financial affairs and obtaining banking services, credit facilities and other forms of financial services. Moreover, banks should facilitate access to ATMs and bank branches for wheelchair users, and take into account that services, account statements and notices sent to customers with disabilities should be printed in Braille, in addition to other special requirements needed. Taking into account the current services provided by banks to this segment of customers, banks have welcomed the said instructions, and started applying them.

- CBK followed up semi-annual reports submitted by banks regarding the development of banking services and products in the retail and corporate sectors examining a set of elements that measure the extent of development and achievement in the customer service to retail and corporate sectors.
- A circular was issued on 5/5/2015 concerning the implementation of the Ministerial Decision No. 38 of the year 2011 regarding the organization of CBK's supervision of finance companies, these companies shall be subjected to CBK's supervision as finance companies only in the event of cancellation of their license for securities activity by the Capital Markets Authority, or delisting the company from CBK's investment companies registry according to company's desire or due to non-compliance with CBK's instructions.
- A committee was constituted by the Ministry of Finance and with the participation of the CBK to study the Foreign Account Tax Compliance Act (FATCA), negotiate and

conclude an agreement between the Ministry of Finance in the State of Kuwait and the U.S. Internal Revenue Service (IRS) in order to apply FATCA. The CBK participates in the periodic meetings held for this purpose. The State of Kuwait, represented by the Ministry of Finance, signed the above-mentioned agreement on 29/4/2015.

- Within the framework of implementing the approved plan for conducting specific purpose inspections of local banks regarding screening systems, risk management policies, emergency plans and sites, information center, and communication networks and related systems, inspection of some of the banks was completed while the others are being inspected. Moreover, correction procedures of banks that have been inspected are being monitored.
- Within the framework of CBK's efforts towards developing Sharia-compliant supervision instructions in Islamic banks and promoting Islamic banking activities in the State of Kuwait, a comprehensive study was prepared regarding the governance of supervision in Islamic banks. Instructions in this regard are currently being prepared.
- According to the inspection plan (January 2015 - July 2016) prepared using the risk-based supervision methodology, 22 banks (10 Kuwaiti banks, 12 foreign bank branches), 75 investment companies and 23 exchange companies were inspected during the period under report. In accordance with the inspection plan (January 2015- July 2016), the Inspection Section is expected to finish inspection of all units under the supervision of CBK during 2016 Q2.
- According to the inspection plan (January 2015 - June 2016) of Anti-Money Laundering Section, 11 local banks, 17 exchange companies were inspected during the period under report. In accordance with the above-mentioned plan, the Anti-Money Laundering Section is expected to finish inspection of all units under the supervision of CBK during 2016 Q2.

- Within the framework of CBK's circular issued on 7/8/2013 concerning on going quarterly examination of consumer and installment loans portfolio, the CBK continued to receive and study auditors' reports concerning this portfolio, taking necessary measures regarding the notes stated in these reports.
- Within the framework of CBK's continuous efforts to review and improve the banking instructions and controls, in line with the international supervisory standards and best regulatory and supervisory practices, and in light of issuing NSFR standard and its controls regarding achieving a comprehensive matching in the structure of the balance sheet of banks, CBK's Board of Directors decided in its session on 15/3/2016 to amend the maximum limit of granting finance issued on 8/5/2012, to become 90% of the total financing sources identified by those instructions, without applying varying percentages according to maturity periods. In the context of applying the liquidity standards, banks' deposits were excluded from the financing sources for the purpose of calculating the maximum limit available for financing.
- With reference to the instructions issued by the CBK to local Islamic banks on 2/5/2005 concerning the calculation of liquidity ratio and its amendments (18%), and in light of the CBK's instructions regarding the implementation of LCR standard and NSFR standard, in terms of dealing with banks' deposits as unstable deposits, in line with these standards and in light of the availability of alternative Islamic tools qualified to be calculated within the mentioned liquidity ratio, either through the CBK's instruments or instruments issued by the CBK on behalf of the Ministry of Finance, CBK's Board of Directors decided on 15/3/2016 to exclude "short-term international Murabaha with banks and financial institutions" from liquid assets when calculating liquidity ratio pursuant to the instructions referred to.

Third: Major Banking Operations Performed by CBK:

Available data indicate that currency in circulation reached KD 1,481.7 million at the end of FY2015/16 against KD 1,458.6 million at the end of the previous fiscal year, i.e. an increase of KD 23.1 million or 1.6%. The highest balance of currency in circulation during FY2014/15 was KD 1,551.4 million at the end of June 2015, while the lowest balance was KD 1,369 million at the end of August 2015.

Furthermore, in light of the successful release of the new sixth issue of Kuwaiti banknotes, and after the percentage of this issue exceeded 90% of total currency in circulation, CBK's Board of Directors, with consent of the Minister of Finance, decided to withdraw all denominations of the fifth issue of Kuwaiti banknotes from circulation as they will lose legal tender status as of 1/10/2015. Holders of the fifth issue of banknotes will, however, be able to exchange such banknotes within a period of ten-years from the resolution date 19/4/2015 (i.e. until 18th April 2025). CBK continued its efforts 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. The value of withdrawn and destroyed banknotes, due to invalidity, reached KD 1.2 billion during FY2015/16.

Available data indicate that interbank settlements carried out through CBK using Kuwait Automated Settlement System for Inter-participant Payments (KASSIP) amounted to KD 315.89 billion during FY2015/16 against KD 278.14 billion during the previous fiscal year, i.e. a rise of KD 37.75 billion or 13.57%. As for the transactions made by CBK's clearing room, the total value of these transactions during FY2015/16 increased to KD 20.37 billion for 2,629.4 thousand transactions (cheques) i.e. an average value of KD 7,748.4/transaction against KD 13.53 billion for 2,445.8 thousand transactions (cheques) i.e. an average value of KD 5,530.1/transaction during FY2014/15.

CBK also made 9,504 bank transfers in favor of ministries and different government institutions totaling KD 2,094.8 million during FY2015/16 against 10,112 bank transfers totaling KD 1,955.5 million during FY2014/15. Other external bank transactions carried out by CBK in favor of ministries and government bodies in the form of documentary credits and payable bills and drafts during FY2015/16 are detailed in the following table:

Particulars	No.	Value (in KD)
First- Documentary Credits:		
1) <u>Opened</u>		
- Local	4	6,653,502
- Foreign	20	238,408,360
2) <u>Paid</u>		
- Local	18	5,801,646
- Foreign	113	36,392,176
3) <u>Amended</u>		
- Local	3	-
- Foreign	21	-
Second- Collection Transactions:		
<u>Bills for Collection</u>		
a-Incoming	-	-
b-Paid-up	-	-
Third- Drafts for Collection	46	200,213

Fourth- Labor Force at CBK:

The following shows CBK's staff statistics development at the end of FY2015/16:

1- CBK's Staff Numbers:

CBK's total staff numbers reached 975 at the end of FY2015/16 against 961 at the end of FY2014/15. The number of Kuwaiti staff increased to 858 (88% of the total) at the end of FY2015/16 compared to 841 (87.5% of the total) at the end of FY2014/15.

CBK appointed 56 new staff during FY2015/16 of whom 52 (93% of total recruits) are Kuwaitis against 33 new staff appointed during FY 2014/15 of whom 24 were Kuwaitis (72.7% of total recruits).

FY2015/16 witnessed end of service of 46 employees for the following purposes: Resignation of 30 employees, retirement of 4 employees, end of service of 4 employees and 4 interns, dismissal of 3 employees and death of one employee.

2- Official Missions:

A number of 158 staff were delegated to attend 78 conferences and meetings abroad during FY2015/16 (an increase of 147%) against 64 staff attending 127 conferences and meetings abroad during FY2014/15.

3- Training Courses:

In fulfillment of staff training needs and work requirements, CBK in coordination with specialized training bodies have organized different programs or 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 664 staff were delegated during FY2015/16 to attend 130 courses in cooperation 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. In

contrast, a total of 567 staff were delegated to attend 159 training programs during FY2014/15.

B- Outside Kuwait:

A total of 75 staff were delegated during FY2015/16 to attend 54 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 the U.S. Federal Reserve. On the other hand, 166 staff have been delegated to attend 109 training programs outside the State of Kuwait during the previous fiscal year.

4- Professional Certificate Program

The number of approved applications for the professional certificate reached 9 during FY2015/16, compared with 8 during FY2014/15.

5- Qualifying Kuwaiti Fresh Graduates

CBK has organized training programs for fresh graduate interns, whereby the Bank concluded training contracts with 4 fresh graduate interns and enrolled them in the internship program prepared for them in the related offices/departments. Moreover, 40 interns have been tenured during FY2015/16, against 7 during FY2014/15.

6- Offering Scholarships for Employees

During FY2015/16 CBK has offered scholarships for 4 employees meeting the requirements to complete their postgraduate studies (3 employees were offered external

scholarships, and 1 employee was offered an internal scholarship), compared to 6 employees during FY2014/15 (4 employees were offered internal scholarships, and 2 employees were offered external scholarships). Moreover, the total number of employees offered postgraduate studies reached 5 at the end of FY2015/16.

7- Participating in the Recruiting and Training Program for Fresh Kuwaiti Graduates within the Banking Sector

CBK, in collaboration with other local banks, participated for the fourth consecutive year, in “The Recruiting and Training Program for Fresh Kuwaiti Graduates within the Banking Sector”. This one-year program is organized by the Institute of Banking Studies under the supervision of CBK. The fifth batch for this program is currently being prepared by training fresh Kuwaiti graduates to participate in the program as of March 2016. Under this program, 2 university graduate interns were selected for CBK to participate in this program.

8- Study after the CBK’s Official Working Hours

CBK has approved 7 study completion requests during FY2015/16 compared with 10 requests for study completion after the official working hours during FY2014/15. The Human Resources Department made the necessary procedures and organized the process of study completion after the official working hours, taking into consideration CBK’s terms and controls in this regard.

9- Training University and Institute Students

During FY2015/16 CBK has trained university and institute students (Kuwait University, the Public Authority for Applied Education and Training, American University of Kuwait, and the American College of the Middle East) in a number of its administrations and

offices. The number of trained students reached 29, compared with 16 during FY2014/15 (i.e. an increase of 81% over FY2014/15).

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 include the following:

- Completing all workshops on the linkage programs between the core banking operations systems and other systems related to CBK's project of core banking operations systems. This project is concerned with the implementation, application and supervision of the Bank's core banking operations systems related to the Banking Operations Department, Foreign Operations Department, Administrative Services Department and the Internal Audit Office. The project also includes the implementation of CBK's new Accounts Tree as well as various core banking operations systems related to Current Accounts, the Balance sheet, Cash, Treasury Affairs, Purchases, Stock and the integration of these systems.
- Using the International Bank Account Number – IBAN whereby all incoming and outgoing financial transactions in the State of Kuwait are conducted in the IBAN form only as of 1st November 2015.
- The Kuwait Automated Cheque Clearing System has been successfully applied on the 14th June 2014, to replace the current cheque clearing manual system with an automated one, in order to improve the operational efficiency of the cheque clearing process. The new system reduced the time span needed to collect and deposit the cheque's amount in the beneficiary's account on the same day or the next day instead of after three or four working days. The Kuwait Automated Cheque Clearing System ensures the

reduction of risks related to deferred collection of cheques, which enhances the efficiency of payment systems, and contributes to strengthening the financial stability in the State of Kuwait.

- CBK has received the Quality Management System Certificate (ISO9001:2015) for the Information Technology (IT) procedures it applies, which is an international recognition of the quality standards applied in CBK, confirming the consistency of the IT services with the best international practices and developments that enhance the effectiveness of the operational systems, as well as the services offered for the banking sector, by improving the level of performance in all IT services.

Worth noting is that Quality Management System (ISO9001:2015) consists of a set of processes and procedures conforming to international quality standards that allow the institution to provide high quality services and products to beneficiaries. These processes and procedures provide the institution with an integrated and coherent system by documenting the processes and procedures of all activities inside or outside the organization in accordance with the system's requirements.

- The implementation of cash-management system has been completed, and the connectivity as well as testing processes with CBK's other systems are being conducted. This accomplishment is a breakthrough in CBK's cash-management system using the latest international technologies and systems for managing, transferring and storing cash in CBK as well as from/to commercial banks, performing automated sorting and inspection operations of cash and linking this system with CBK's other systems.

During FY2015/16, CBK organized several activities within its keenness to enhance its communication with the components of the economic and financial society. Responding to the rapid changes taking place in the traditional and new media industry, CBK has adopted a balanced media policy that highlights its achievements and familiarizes the community

and those interested with its efforts, accomplishments and pivotal role in maintaining financial stability, developing and strengthening the supervision of the banking system, and enhancing monetary stability through monetary policy operations. These efforts are addressed as follows:

- Publishing 47 press material including press statements, press releases and coverage of CBK's attainments on local newspapers, TV channels and news agencies. Moreover, more than 50 posts were made on social media, on CBK's businesses, the entities subject to its supervision, as well as other relevant entities.
- As part of expanding its electronic publishing base, CBK has created its own social networking accounts on Twitter, Instagram and YouTube, in an effort to keep pace with the rapid developments in electronic media, and enhance its ability to swiftly reach interested followers and targeted individuals.
- Within the same context, CBK has followed up more than 61 decisions in the State of Kuwait's Official Gazette in accordance with the procedures followed in this regard. CBK has organized six events over the last year, most significantly the World Islamic Banking Conference (WIBC) jointly organized by CBK and the IMF, under the patronage of His Highness the Amir and in the presence of an international gathering of ministers and central bank governors.
- Within the framework of awareness and guidance campaigns, CBK has contributed in the campaign on the withdrawal of the fifth issue of banknotes from circulation. Furthermore, CBK has signed contracts to produce six short film materials that highlight its contributions to the enclosure of amendments regarding the rules and principles for granting Consumer Finance, Personal Finance Installment, Consumers Protection Manual, and the Special Needs Manual. For maintaining its prestige and outstanding reputation at all levels, CBK has started its institutional identity

development project (Branding) to cope with the inclusive developments and modernization taking place in CBK. These attempts are also manifested in CBK's preparation for the relocation to the new headquarters.

- On the level of strategic projects, CBK has started strategic cooperation with Thomson Reuters, which resulted in CBK's participation in the organization of WIBC, in addition to a number of proposals for cooperation. CBK has collaborated with Kuwait Green Building Council (KGBC) by executing an integrated concept of a Green Building project in CBK's new headquarters.

Within this context, CBK has continued its efforts during FY2015/16 in preparing and issuing its periodic bulletins and reports which include the Monthly Monetary Statistics, Quarterly Statistical Bulletin, Economic Report, Annual Report in English and Arabic, and the Financial Stability Report in English and Arabic. Moreover, CBK constantly updates its official website, which includes the information, data, and statistics on the local banking and financial sector as well as other sectors of the national economy.

- **CBK's New Headquarters**

During FY2015/16, CBK has continued its efforts to complete the construction of its new headquarters. In this regard, actual expenditures for this project during FY2015/16 reached KD 8.6 million out of an approved budget of KD 15.9 million.

Sixth: The Central Bank of Kuwait
Balance Sheet and Profit & Loss Account
For the Fiscal Year Ended 31 March 2016

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 2016 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	SAFI AL-MUTAWA
LICENCE NO. 68 A	LICENCE NO. 138A
AL AIBAN, AL OSAIMI & PARTNERS	KPMG Safi Al-Mutawa & Partners
ERNST & YOUNG	MEMBER FIRM OF KPMG INTERNATIONAL

The State of Kuwait on 3 May 2016.

BALANCE SHEET AS AT 31 MARCH 2016
(AMOUNTS IN KD)

Assets	Notes	31 March 2016	31 March 2015
Gold	2	31,737,848	31,736,361
Cash, Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions		686,885,705	695,101,770
Deposits and Investments in Foreign Currency	3	8,545,966,810	7,789,350,430
Other Assets	4	36,400,069	27,181,445
		9,300,990,432	8,543,370,006
Accounts Managed by CBK on behalf of the Government of the State of Kuwait, and Contra Accounts	10	2,534,339,231	2,501,112,000

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

BALANCE SHEET AS AT 31 MARCH 2016
(AMOUNTS IN KD)

Equity and Liabilities	Notes	31 March 2016	31 March 2015
Capital - Fully Paid Up		5,000,000	5,000,000
General Reserve Fund	5	325,046,262	295,000,000
Special Account	6	73,183,446	54,083,902
Profit for the Year		44,767,105	30,046,262
Currency in Circulation	7	1,481,709,975	1,458,576,542
CBK Bonds Issued	8	1,825,000,000	1,925,000,000
Government Accounts		596,273,201	672,372,448
Local Banks' Current Accounts and Deposits with CBK	9	4,244,443,457	3,797,744,441
International Institutions		187,788,460	34,979,336
Collateral against Documentary Credits	10	248,011,056	79,600,679
Other Liabilities	11	269,767,470	190,966,396
		9,300,990,432	8,543,370,006
Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts	10	2,534,339,231	2,501,112,000

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

**PROFIT & LOSS ACCOUNT FOR
FY ENDED 31 MARCH 2016
(KD)**

	Notes	31 March 2016	31 March 2015
Interest & Revenues from Investments		90,777,501	88,555,348
Expenses of Interest and Commissions		<u>(50,307)</u> 90,727,194	<u>(48,276)</u> 88,507,072
Other Revenues		<u>3,593,040</u>	<u>818,442</u>
Operating Revenues		94,320, 234	89,325,514
Operating Expenses	12	<u>(49,553,129)</u>	<u>(59,279,252)</u>
Net Profit for the year		<u>44,767,105</u>	<u>30,046,262</u>
Disposed of according to Article 17 of Law No. 32 of 1968 and its amendments, as follows:			
to the General Reserve Fund's Account	5	<u>44,767,105</u>	<u>30,046,262</u>

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

NOTES TO THE FINANCIAL STATEMENTS
(31 MARCH 2016)

1- The Bank's 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 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):

	31 March 2016	31 March 2015
Deposits with Foreign Banks and Institutions	8,541,439,810	7,784,847,430
CBK's Facilities to the International Bank for Reconstruction and Development	4,527,000	4,503,000
	8,545,966,810	7,789,350,430

4- Other Assets (KD):

	31 March 2016	31 March 2015
Interest Receivable on Deposits and Other Assets	21,482,018	12,865,836
Investments (KD)	2,791,210	2,791,210
Prepaid Expenses	4,893,531	381,403
Advance Payments	-	422,551
Other Debit Balances	7,233,310	10,720,445
	<u>36,400,069</u>	<u>27,181,445</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):

	31 March 2016	31 March 2015
Balance at the Beginning of the Year	54,083,902	100,091,646
Net difference in foreign currency, resulting from revaluation of cash assets and liabilities in foreign currencies	19,099,544	(46,007,744)
Balance at the end of the Year	73,183,446	54,083,902

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):

	31 March 2016	31 March 2015
Net Issued Currency	2,117,751,410	3,037,089,260
Less: Currency in the CBK's Vaults	(636,041,435)	(1,578,512,718)
	1,481,709,975	1,458,576,542

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

Currency in the CBK's vaults includes cash prepared for daily 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. The maximum period allowed for the replacement of the fifth issue of banknotes from CBK is from 1 October 2015 to 18 April 2025.

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 2016	31 March 2015
Current Accounts	1,551,532,570	806,295,399
Deposits	390,000,000	420,000,000
Tawarruq Operations (withdrawals)	2,302,910,887	2,571,449,042
	4,244,443,887	3,797,744,441

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

	31 March 2016	31 March 2015
a- Accounts Managed by the CBK on Behalf of the Government of Kuwait	2,279,595,080	2,419,824,674
b- Contra Accounts:		
Documentary Credits	251,796,745	78,364,373
Memorial Banknotes and Coins	2,947,406	2,922,953
	254,744,151	81,287,326
Collections According to Law No. 41 of 1993	2,534,339,231	2,501,112,000

On 31 March 2016, deposits of KD 248,011,056 (KD 79,600,679: 2015) were held against the documentary credits referred to above.

11- Other Liabilities (KD):

	31 March 2016	31 March 2015
Payable Expenses	10,552,360	14,734,658
Other Credit Balances	248,273,990	174,900,158
Ministry of Finance - Cost of Supporting Money Market Operations (Note 2)	10,941,120	1,331,580
	269,767,470	190,966,396

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):

	31 March 2016	31 March 2015
Staff Costs	29,284,378	30,214,954
Administrative and Computer Operation Costs	6,143,588	5,856,873
Purchase of Furniture and Equipment	1,095,626	457,549
Production and Shipment of Currency	1,299,887	2,559,935
Miscellaneous	3,125,560	2,985,143
Construction Costs	8,604,090	17,204,798
	49,553,129	59,279,252

13- Promissory Notes Held:

On 31 March 2016, promissory notes held by the CBK in safe custody on behalf of international institutions totaled KD 611,386,389 (KD 448,130,979: 2015).

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