



CENTRAL BANK OF KUWAIT



Annual Report Forty-Fifth 2016-2017

CENTRAL BANK
OF **KUWAIT**

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بنك الكويت المركزي

CENTRAL BANK OF KUWAIT



THE 45th ANNUAL REPORT

FOR THE FISCAL YEAR 2016/2017



**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 YEAR 2016 / 2017



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Member

Introduction

I am pleased to present the 45th Annual Report of the Central Bank of Kuwait (CBK) for the Fiscal Year (FY) 2016/17 that includes the Auditors' Report on CBK financial statements as of 31st March 2017. The first section of the Report is dedicated as usual to presenting a synopsis on the most notable monetary and banking developments in the Kuwaiti economy during FY2016/17. The Report further explains the main procedures and operations carried out by CBK departments in various areas with respect to monetary and banking conditions, including CBK efforts to develop and enhance its oversight over local banking and financial system units.

During FY2016/17, preparations of CBK new building were completed including all the arrangements to provide the needs and supplies of the offices, and the transfer of all CBK departments to the new building. On April 10, 2017, the new building of CBK was officially opened under the gracious patronage and presence of His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah and His Highness the Crown Prince, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah in a ceremony that highlighted CBK endeavors and development of the monetary and banking system in the State of Kuwait. Also to be noted is that CBK new headquarters has received top honors for project excellence and won the "2016 MEED Quality Awards for Projects".

Furthermore, CBK efforts were focused during FY2016/17 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 over the banking and financial sector, aimed at boosting the sustainable economic growth in the country and enhancing the supportive environment to ensure the 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 0.7% at the end of FY2016/17 compared with the previous year, within which the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors, increased by 3.6% to reach KD 34,887.6 million at the end of FY2016/17 compared to KD 33,689.4 million at the end of the previous fiscal year. Moreover, residents' deposits with local banks increased by 2.4% to KD 41,944.2 million at the end of FY2016/17 against KD 40,941.6 million at the end of the previous fiscal year. Likewise, the aggregate balance sheet of local banks soared to KD 61,957.9 million at the end of the mentioned fiscal year against KD 59,790.7 million at the end of 2015/16, i.e. an increase of KD 2,167.1 million or 3.6%.

The CBK has continued its efforts in the area of oversight and supervision of registered local banking and financial system units during FY2016/17, with the aim of strengthening their financial position in line with the international best practices for effective banking supervision, thus, reinforcing financial

stability. In this regard, the CBK spared no effort to improve Islamic banking activities through developing Sharia supervisory regulations for Islamic banks, issuing on December 2016 regulations on Sharia supervisory governance for Kuwaiti Islamic banks. Furthermore, CBK has been keen on verifying the banking and financial sector's commitment to execution of the rules and regulations of granting/financing consumer and installment loans and amendments thereto. Additionally, CBK has continued its efforts during FY2016/17 to promote financial stability, identify the source of any potential shocks that may affect resilience, and develop appropriate controls to reduce and address the related risks including organizing a seminar on "Risk and Recovery and Resolution Planning (PRP) for Domestic Systemically Important Banks (D-SIBs)".

Furthermore, during FY2016/17 CBK strove 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 staff 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 specialized national staff in banking and finance, through various programs, the most notable of which are: the Master's Degree scholarships program, recruiting and training fresh graduates on working in the banking sector and developing executive leadership in partnership with prestigious entities at the Gulf, Arab and international levels.

Moreover, CBK efforts extend to modernizing and developing its IT infrastructure in line with the latest international developments. During FY2016/2017, CBK completed several IT development projects, most prominent of which include Core Banking Operation Systems, Cash Management System, Kuwait National IT Governance Framework (KNIGF) Project in partnership with The Central Agency for Information Technology, and Audit the Quality Management System (ISO9001:2015).

Also, CBK has undertaken several other activities to enhance its communication with the economic/financial community and the public, and the accelerating advancements in the media industry. For this purpose, CBK applies an unbiased media policy that highlight its roles and efforts in implementation of the monetary policy and development of the banking regulation and supervision programs that aim to maintain the monetary stability and provide the supporting environment for sustainable economic growth and financial stability. In this respect, CBK has continued its efforts during FY2016/17 to prepare its periodical publications, which include latest economic, financial and banking statistics and data, including the Economic Report 2015 and the Financial Stability Report 2015. CBK has also continued its efforts to update the contents of its website to boost the transparency policy it pursues. Regarding expanding CBK electronic publishing base, the number of followers for its social networking accounts has increased during FY2016/17, thus contributing to the strengthening

of good relations between the Bank, the public, local and international institutions, and CBK staff via organizing events and benefiting from various occasions.

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
The Governor

First: Monetary and Banking Indicators

- Monetary Developments
- Banking Developments

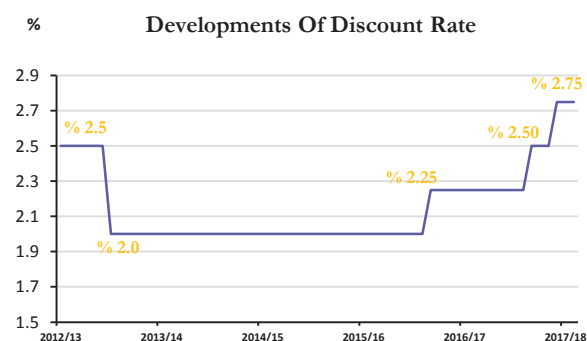
I. Monetary Developments

This part of the Report highlights the key developments relating to Kuwait's major monetary and banking indices during FY2016/17 as reflected in data on interest rates, KD exchange rate against major currencies, money supply, types of resident deposits, monetary base, bank credit and issuance of public debt instruments. A significant part of these developments reflects the impact of CBK efforts related to the formulation and implementation of monetary policy. Data on Kuwait's major monetary indices and aggregates during FY2016/17 indicate the following developments:

1. Domestic Interest Rates:

In light of CBK 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 efforts to strengthen the foundations of domestic economic growth while maintaining KD's attractiveness and competitiveness as a store of domestic savings, which forms the main source of finance provided by local banking and financial sector units for various sectors of the national economy, and thus maintaining a supporting environment for sustainable economic growth, the CBK raised its Discount Rate twice, during FY2016/17, the first was by 25 basis points in December 2016 (from 2.25% to 2.5%) and the second by 25 basis points in March 2017 (from 2.5% to 2.75%), after the announcement by US Federal Reserve to raise the interest rates by 0.250 percentage point on the two mentioned dates.

Chart (1)



Source: Central Bank of Kuwait

In the same context, as for interest rates on customers' KD and USD deposits with local banks, the average interest rates on customers' KD time deposits witnessed a rise during FY2016/17 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 0.903% and 1.108% respectively against 0.698% and 0.869% during the previous fiscal year.

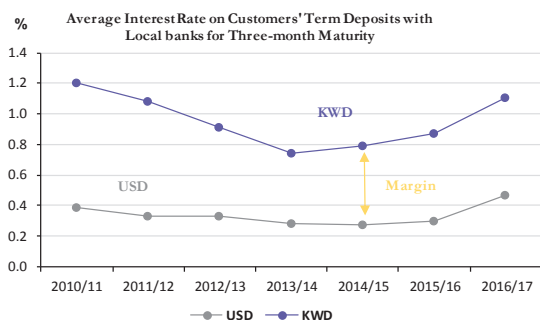
Margins between the average interest rates on KWD and USD time deposits with local banks continued to be in favor of the KD.

On the other hand, the average interest rates on USD time deposits with local banks of one-month and three-month maturity increased during FY2016/17 reaching 0.326% and 0.470% respectively, against 0.182% and 0.296% for the two mentioned terms respectively during the previous fiscal year.

Consequently, the margin between the average interest rates on KD and USD deposits of one-month and three-month maturity during FY2016/17 reached 0.577 percentage point and 0.638 percentage point respectively, with a margin of 0.516 and 0.573 percentage point

respectively in favor of KD deposits, which was also in favor of KD deposits during FY2015/16.

Chart (2)



Source: Central Bank of Kuwait

On the other hand, the average interest rates on local interbank KD deposits of various maturities increased during FY2016/17 compared with the previous fiscal year. Specifically, the average interest rates on local interbank KD deposits of one-month maturity increased reaching 1.097% against 1.039% for the mentioned term during the previous fiscal year FY2015/16.

Meanwhile, the average interest rates on public debt instruments on Kuwaiti Treasury Bonds of one-year maturity reached 1.5% during FY2016/17, and the average interest rates on Kuwaiti Treasury Bonds of two years maturity reached 1.875%. The average interest rates on Kuwaiti Treasury Bonds of three, five, seven, and ten years maturity reached 2.250%, 2.750%, 3.125% and 3.625% respectively.

2. KD Exchange Rate:

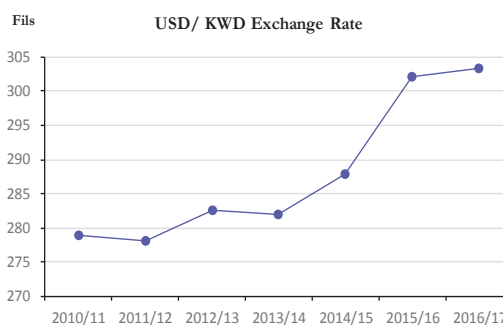
During FY2016/17, CBK has continued its efforts towards maintaining relative stability of the KD exchange rate against other major currencies, in light of the KD exchange rate policy adopted since 20 May 2007 pegging the Kuwaiti Dinar to a special weighted basket of currencies of countries that are significantly

engaged in trade and financial relations with the State of Kuwait.

While the exchange rate of the USD against other major currencies fluctuated within broader margins, the difference between the exchange rate of the USD against the KD reached 1.9%.

In this regard, the average exchange rate of the USD against the KD for FY2016/17 reached 303.09 fils (per USD) against 302.18 fils during the previous fiscal year, i.e. an increase in USD exchange rate of 0.91 fils or 0.30%. The difference between the highest (306.3 fils) and the lowest (300.5 fils) exchange rate of the USD against the KD reached 1.9% during FY2016/17.

Chart (3)



Source: Central Bank of Kuwait

Conversely, the exchange rate of the USD witnessed significant fluctuations against other major currencies during FY2016/17; difference between the highest and the lowest rates of USD reached 22%, 17.9%, 10.9% and 8% against Pound Sterling, Japanese Yen, Euro and Swiss Franc respectively.

Table (1)

USD Exchange Rate against KD and Some Major Currencies

Item	2016/17			
	Highest Price	Lowest Price	End of Period	Average
Kuwaiti Dinar (fils)	306.35	300.500	304.55	303.09
Pound Sterling	0.8283	0.6787	0.8057	0.7637
Euro	0.9612	0.8670	0.9248	0.9106
Swiss Franc	1.0287	0.9527	0.9923	0.9875
Japanese Yen	118.0050	100.0600	111.180	108.41

Source: Central Bank of Kuwait

3. Money Supply:

Money Supply in its Broad Definition (M2) increased to KD 36,704.2 million at the end of FY2016/17 against KD 36,431.7 million at the end of FY2015/16, i.e. an increase of KD 272.5 million or 0.7% compared with an increase of KD 1,429.2 million or 4.1% during the previous fiscal year.

Growth in Money Supply (M2) witnessed a decline after recording a rise during the previous year.

A major part of the increase in M2 resulted from CBK continuous efforts to manage the levels of domestic liquidity providing an appropriate atmosphere to boost the growth of various domestic economic sectors.

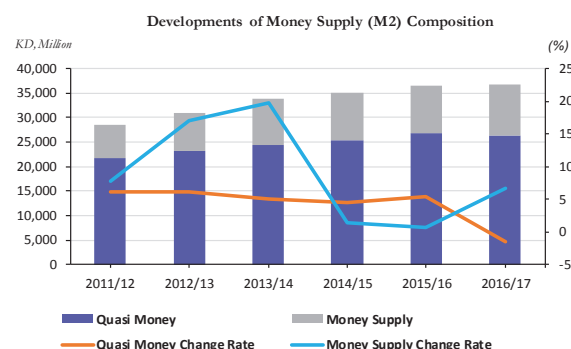
Table (2)

Money Supply Developments (M2) (KD million)

End of Period	2015/16 (1)	2016/17 (2)	Change in (2) over (1)	
			Value	(%)
Money Supply (M2)	36,431.7	36,704.2	272.5	0.7
Money (M1) of which:	9,658.8	10,309.1	650.2	6.7
Sight Deposits	8,177.1	8,663.1	486.0	5.9
Quasi Money	26,772.8	26,395.1	-377.7	-1.4
KD Deposits (other than sight deposits)	23,116.8	23,546.0	429.2	1.9
FC Deposits	3,656.1	2,849.1	-807.0	-22.1

Source: Central Bank of Kuwait

Chart (4)



Source: Central Bank of Kuwait

As for the factors affecting the changes in M2 within the monetary survey of CBK and local banks at the end of FY2016/17 compared with the end of the previous fiscal year, the mentioned rise in M2 of KD 272.5 million or 0.7% resulted from the increase in net domestic assets of these entities of KD 425.1 million or 2.2% on one hand and the decrease in net foreign assets of the mentioned entities of KD 152.6 million or 0.9% on the other.

The above-mentioned rise in net domestic assets of these entities was due to:

- The increase in local banks' claims on the private sector of KD 1,296.4 million or 3.6%, which was an outcome of the growth in both: credit facilities extended to residents of KD 1,198.2 million or 3.6% and other domestic investments of KD 98.2 million or 5.1%.
- The rise in claims on the government of KD 2,237.7 million or 141.7%.
- The increase in government's deposits and accounts of KD 1,922.6 million or 29.2%.
- The rise in net domestic assets under item "other" of KD 1,186.4 million or 10.2%.

Whereas, the mentioned decrease in net foreign assets of these institutions was an outcome of the following:

- The decline in net foreign assets of local banks of KD 369.3 million or 4.4%.
- The increase in net foreign assets of CBK of KD 216.7 million or 2.4%.

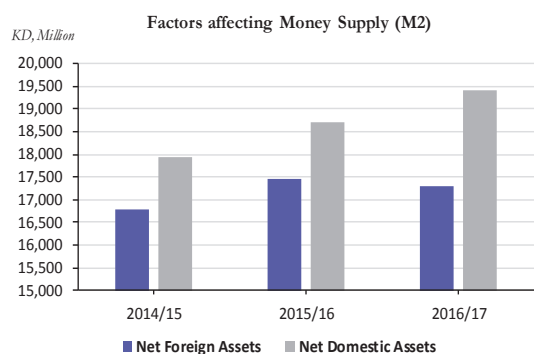
Table (3)

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

End of Period	2015/16 (1)	2016/17 (2)	Change in (2) over (1)	
			Value	%
Net Domestic Assets:	18,980.2	19,405.3	425.1	2.2
-Claims on the Private Sector	35,625.1	36,921.5	1,296.4	3.6
-Claims on the Government (Net)	1,579.6	3,817.3	2,237.7	141.7
- Government's Deposits and Accounts	6,587.9	8,510.5	1,922.6	29.2
-Other (Net)	11,636.7	12,823.0	1,186.4	10.2
Net Foreign Assets:	17,451.5	17,298.9	-152.6	-0.9
-CBK	9,076.8	9,293.5	216.7	2.4
-Local Banks	8,374.7	8,005.4	-369.3	-4.4

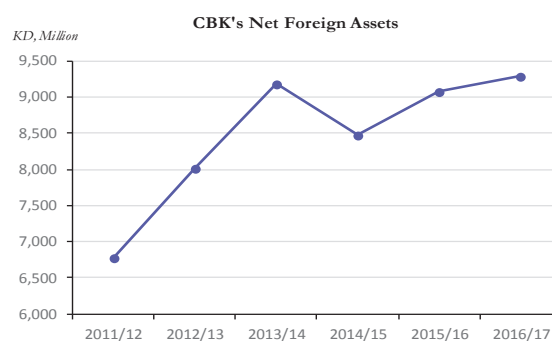
Source: Central Bank of Kuwait

Chart (5)



Source: Central Bank of Kuwait

Chart (6)



Source: Central Bank of Kuwait

4. Resident's Deposits by Type:

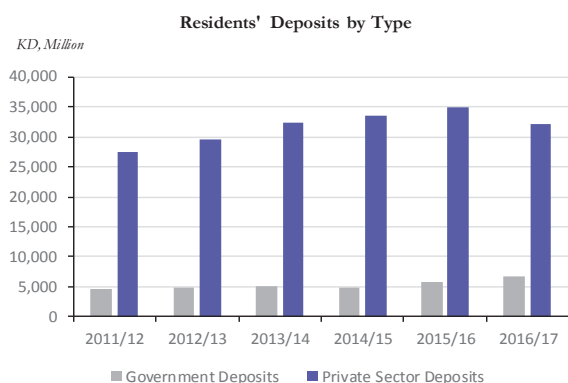
Government Deposits Recorded the Second Highest Percentage Increase in the Past Five Years.

Data indicate a rise in the total account of residents' deposits with local banks of KD 1,002.7 million or 2.4% to KD 41,944.2 million at the end of FY2016/17 against KD 40,941.6 million at the end of the previous fiscal year. This rise came as a result of the increase in government deposits by KD 894.4 million or 14.9% and private sector deposits by KD 108.3 million or 0.3% at the end of FY2016/17.

The rise in the private sector (resident) deposits with local banks would be attributed to the following:

- The increase in private sector KD deposits by KD 915.2 million or 2.9%.
- The decrease in private sector deposits in foreign currency by KD 807.0 million or 22.1%.

Chart (7)



Source: Central Bank of Kuwait

5. Monetary Base

CBK pursued managing levels of domestic liquidity during FY2016/17 in accordance with the economic, monetary and banking conditions in the country.

CBK uses numerous monetary instruments, notably:

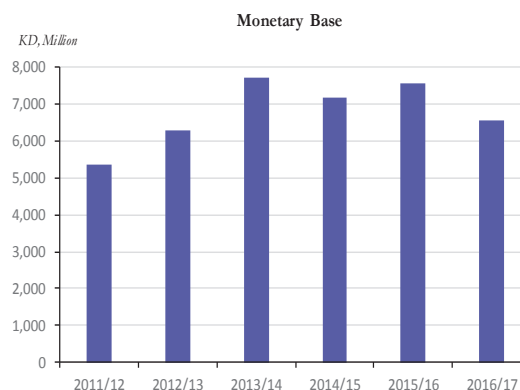
- Accepting time deposits from local banks.
- Issuing CBK bonds.
- Accepting sight deposits from local banks and financial institutions.

Monetary Base: The Decrease in the Balances of Local Banks' Time Deposits and Related Tawarruq with CBK were the Main Causes of the Decline in the Monetary Base.

- The balance of currency in circulation increased by KD 164.2 million or 11.1% to KD 1,645.9 million at the end of FY2016/17 compared to KD 1,481.7 million at end of the previous year.
- The balances of sight deposits witnessed a decline of KD 608.6 million or 39.2% during FY2016/17 to reach KD 944.2

million at the end of FY2016/17 compared to KD 1,552.7 million at the end of FY2015/16.

Chart (8)



Source: Central Bank of Kuwait

- The balances of local banks' time deposits and related Tawarruq with CBK, within the system of accepting time deposits from these local banks during FY2016/17, witnessed a decrease of KD 1,555.9 million or 57.7% to reach KD 1,137.0 million at the end of FY2016/17 compared to KD 2,692.9 million at the end of the previous fiscal year.

Consequently, the balance of monetary base decreased from KD 7,552.4 million at the end of FY2015/16 to KD 6,547.3 million at the end of FY2016/17, i.e. a decline of KD 1,005.1 million or 13.3%.

6. Bank Credit

Balances of the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors during FY2016/17 increased by KD 1,198.2 million or 3.6% to reach KD 34,887.6 million at the end of the mentioned fiscal year compared to KD 33,689.4 million at the end of FY2015/16.

Credit Facilities Extended to Crude Oil and Gas Sector was the Main Drive of Growth in the Balances of Credit Facilities.

The mentioned rise in the balances of credit facilities resulted, basically, from the increase in credit facilities extended to:

- Personal Facilities (by KD 418.9 million or 2.9%)
- Companies (by KD 779.3 million or 4.0%), which in turn resulted from the rise in credit facilities extended to the following sectors, the most notable of which are:
 - Crude oil and gas (by KD 708.3 million or 109.6%).
 - Trade (by KD 171.3 million or 5.6%).
 - Construction (by KD 159.8 million or 8.2%).

On the other side, cash credit facilities extended by local banks to the following sectors decreased at the end of FY2016/17, the most notable of which are:

- Industry sector (by KD 247 million or 12.1%).
- Real Estate sector (by KD 154.1 million or 1.9%) compared with the end of the previous fiscal year.

Table (4)

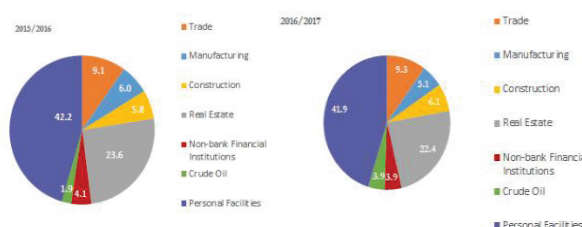
Developments of Balances of Utilized Cash Portion of Credit Facilities Extended to Residents by Local Banks
(KD Million)

End of Period	2015/16 (1)	2016/17 (2)	Change in (2) over (1)	
			Value	(%)
Total utilized cash credit facilities, of which:	33,689.4	34,887.6	1,198.2	3.6
• Trade	3,078.6	3,249.8	171.3	5.6
• Industry	2,036.5	1,789.5	-247.0	-12.1
• Construction	1,952.3	2,112.1	159.8	8.2
• Non-bank Financial Institutions	1,393.1	1,354.0	-39.1	-2.8
• Personal Facilities	14,215.3	14,634.2	418.9	2.9
• Real-Estate	7,965.8	7,811.6	-154.1	-1.9
• Crude Oil and Gas	646.5	1,354.9	708.3	109.6

Source: Central Bank of Kuwait

Chart (9)

Relative Importance of Balances of Utilized Cash Portion of Credit Facilities Extended to Residents (%)



Source: Central Bank of Kuwait

7. Issuance of Public Debt Instruments and CBK Bonds:

A. Issuance of Public Debt Instruments:

The CBK manages the issuance of public debt instruments (Kuwaiti Treasury Bills, Treasury Bonds and related Tawarruq) 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.

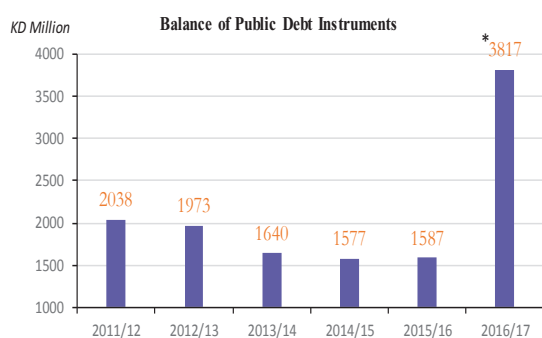
Balances of Public Debt Instruments Witnessed a Rise After a Continued Decline During the Past Fiscal Years.

Within this context, the CBK introduced 37 issues of Treasury Bonds, during FY2016/17, with a total nominal value of KD 3,500.0 million, while 26 previous issues of these bonds matured with a total nominal value of KD 1,270.0 million.

Accordingly, the total outstanding balance of public debt instruments (Treasury Bills, Treasury Bonds and related Tawarruq) increased to KD 3,817.3 million at the end of FY2016/17.

The balance of public debt instruments held by local banks was KD 3,817.3 million (100%) at the end of FY2016/17.

Chart (10)



* Public debt related Tawarruq started in April 2016

Source: Central Bank of Kuwait

B. CBK Bonds and Related Tawarruq :

CBK introduced 40 issues of its Bonds (CBK Bonds and related Tawarruq) during FY2016/17 with a total nominal value of KD 8,310.0 million, while 39 previous issues of these bonds matured with a total nominal value of KD 8,555.0 million.

Accordingly, the total outstanding balance of CBK Bonds and related Tawarruq decreased to

KD 2,675.0 million at the end of FY2016/17, against KD 2,920.0 million at the end of the previous fiscal year, i.e. a decline of KD 245.0 million or 8.4%.

II. Banking Developments

Local Banks' Aggregate Balance Sheet:

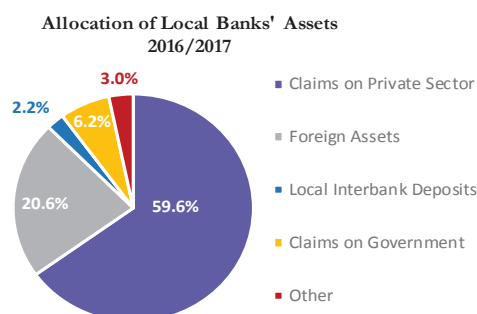
Data on the aggregate balance sheet of local banks indicate an increase to KD 61,957.8 million at the end of FY2016/17 against KD 59,790.7 million at the end of FY2015/16, i.e. a rise of KD 2,167.1 million or 3.6%. This rise was caused by various developments in the components of both assets and liabilities sides of the balance sheet, the most notable of which are highlighted as follows:

A. On the Assets Side:

- Local banks' claims on the private sector increased by KD 1,296.4 million or 3.6% to KD 36,921.6 million at the end of FY2016/17 against KD 35,625.1 million at the end of FY2015/16. 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 1,198.2 million or 3.6% to KD 34,887.6 million at the end of FY2016/17 against KD 33,689.4 million at the end of the previous fiscal year, and the increase in the balances of other local investments of KD 98.2 million or 5.1% to KD 2,033.9 million at the end of FY2016/17 against KD 1,935.7 million at the end of the previous fiscal year.
- Local banks' claims on the CBK decreased by KD 1,165.7 million or 19.3% to KD 4,882.4 million at the end of FY2016/17 against KD 6,048.0 million at the end of the previous fiscal year.

This decline resulted from the decrease in the balances of time deposits and related Tawarruq with the CBK of KD 1,555.9 million or 57.8%, from KD 2,692.9 million to KD 1,137.0 million; and sight deposits with the CBK of KD 604.9 million or 39.5%, from KD 1,530.1 million to KD 925.2 million on the one hand, and the increase in local banks' holdings of CBK Bonds and related Tawarruq of KD 995.2 million or 54.5%, from KD 1,825.0 million to KD 2,820.2 million on the other.

Chart (11)



Source: Central Bank of Kuwait

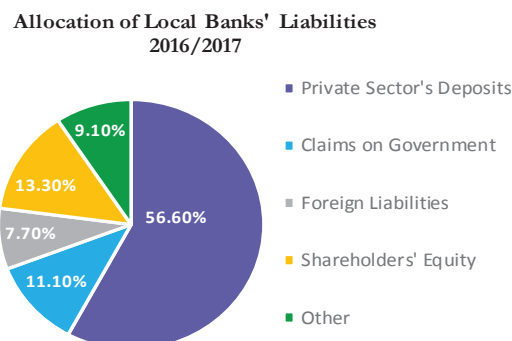
B. On the Liabilities Side:

- Private sector (resident) deposits with local banks increased by KD 108.3 million or 0.3% to KD 35,058.2 million at the end of FY2016/17 against KD 34,950.0 million at the end of the previous fiscal year. This rise resulted primarily from the increase in the balances of KD deposits of KD 915.2 million or 2.9% to KD 32,209.1 million at the end of FY2016/17 against KD 31,293.9 million at the end of the previous fiscal year. Meanwhile, private sector (resident) deposits in foreign currency with local banks recorded a decrease of KD 807.0 million or 22.1% to KD 2,849.1 million at the end of FY2016/17 against KD 3,656.1 million at the end of the previous fiscal year.

- Government deposits with local banks increased by KD 894.4 million or 14.9% to KD 6,886.0 million at the end of FY2016/17 against KD 5,991.6 million at the end of FY2015/16.
- Shareholders' equity with local banks increased by KD 387.9 million or 4.9% to KD 8,274.1 million at the end of FY2016/17 against KD 7,886.1 million at the end of FY2015/16.

On the other hand, the balances of contra accounts with local banks reached KD 15,966.5 million at the end of FY2016/17 against KD 13,914.3 million at the end of FY2015/16, i.e. an increase of KD 2,052.2 million or 14.7%. These balances represent 25.8% of the aggregate balance sheet of local banks at the end of FY2016/17 against 23.3% at the end of FY2015/16.

Chart (12)



Source: Central Bank of Kuwait

Table (5)

Local Banks' Aggregate Balance Sheet
 (KD million)

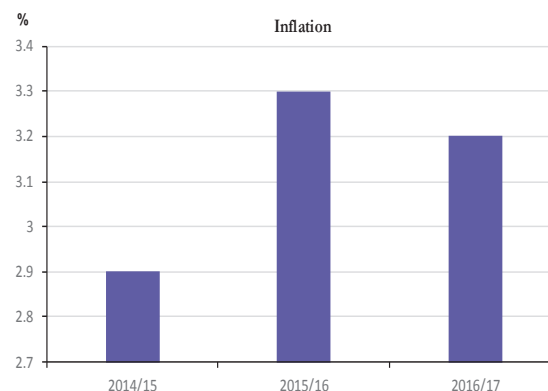
Items	Closing Balance	
	2015/16	2016/17
Assets:		
Cash	264.2	307.7
Claims on CBK	6,048.0	4,882.4
Local Interbank Deposits	1,906.7	1,391.3
Claims on Government	1,579.6	3,847.2
Claims on Private Sector	35,625.1	36,921.5
Foreign Assets	12,640.8	12,747.1
Other Assets	1,726.3	1,860.6
Total Assets	59,790.7	61,957.8
Liabilities:		
Private Sector (Resident) Deposits	34,950.0	35,058.2
Government Deposits	5,991.6	6,886.0
Local Interbank Deposits	1,787.6	1,370.3
Shareholders' Equity	7,886.1	8,274.1
Foreign Liabilities	4,266.1	4,741.8
Other Liabilities	4,909.3	5,627.5
Total Liabilities	59,790.7	61,957.8
Contra Accounts:	13,914.3	15,966.5

Source: Central Bank of Kuwait

Inflation Rate:

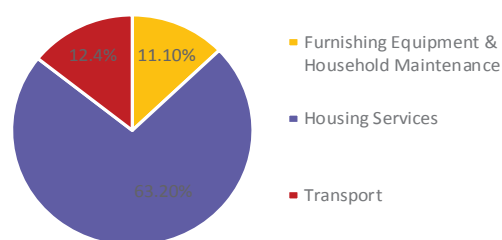
Data issued by the Central Statistical Bureau indicate that the annual inflation rate, measured by the relative change in the General Consumer Price Index (CPI) reached 3.2% during FY2016/17 against 3.3% during FY2015/16. The main groups that most contributed to the mentioned rate are: "Housing Services" (relative weight 28.8%) with a relative contribution of 63.1% to the inflation rate, "Transport" (relative weight 7.9%) with a relative contribution of 12.4%, and "Furnishing equipment and household maintenance" (relative weight 11.2%) with a relative contribution of 11.0%.

Chart (13)



Source: Central Bank of Kuwait

Chart (14)

Contributions to Inflation Ratio by the Major Sections 2016/2017


Source: Central Statistical Bureau

Second: CBK Supervisory Efforts

- Instructions, Circulars and Controls
- Other Activities

CBK supervisory and oversight efforts over the banking and financial sector units under its supervision continued during FY2016/17 within the context of maintaining the integrity of the financial position of these units and solidifying Kuwait's monetary and financial stability.

I. CBK key instructions, circulars and controls issued for the banking and financial units under its supervision

- **Issuing instructions concerning Sharia governance in Kuwaiti Islamic banks**

Within the framework of CBK continuous efforts to elevate the Islamic banking activities in the State of Kuwait, and develop the instructions of sharia-compliant supervision in Islamic banks in this regard, CBK Board of Directors approved, in its session held on 20/12/2016, issuing instructions concerning **“The Sharia governance in Kuwaiti Islamic banks”** to replace the instructions issued by CBK on 15/6 and 19/6/2003 regarding the appointment's conditions, and the jurisdiction of the Sharia supervisory board in Islamic banks in order to be corresponding with the instructions stipulated in the rules and regulations of governance in Kuwaiti banks issued in June 2012 with reference to the work of Islamic banks.

It is worth mentioning that the issuance of these instructions comes in light of the immense developments in the Islamic banking industry, as well as the developments witnessed in the volume and quality of operations in the Islamic banking sector in the State of Kuwait since the issuance of the mentioned CBK instructions in June 2003. This emphasizes the critical importance of the Sharia governance for each Islamic bank and

the banking sector as a whole, as one of the important pillars of financial stability.

- **Issuing a circular to all banks, investment companies and financing companies on the new terms of reference of the continuous inspection task on all cases of consumer/installment loans/finance**

Following CBK circular issued on 7/8/2013, concerning the assignment of an audit office to conduct an examination on all consumer/installment loans/finance granted by banks and investment companies on a continuous basis every quarter, in accordance with the terms of reference attached to the circular issued on 16/7/2012 thereon, and in light of what have been disclosed from the follow-up reports of the audit offices of local banks, concerning the need to enhance the terms of reference of the mentioned auditor's task, CBK has issued a circular to all banks, investment companies, and financing companies on 18/10/2016 accompanied with **new terms of reference for the continuous examination of all consumer/installment loans/finance and submitted every quarter.**

The objective of this task is to continue to verify the commitment of banks, local investment companies and financing companies to the instructions of CBK concerning the rules and basis for consumer/installment loans/finance and its amendments by assigning the task to one of the main audit offices.

II. Other Activities

- **Issuing an awareness announcement presenting the methods and the order of procedures to be followed by**

customers in the event of submitting complaints with the authorities.

CBK makes efforts to protect the rights of clients in CBK-regulated entities, such as the entitlements available to clients in the case of submitting complaints or grievances regarding the transactions or services they receive, clarifying the methods and mechanisms to submit such complaints, the maximum date for responding by those bodies, and the procedures organized to submit complaints to those bodies. Therefore, to achieve transparency and in order to raise awareness of the clients of CBK-regulated entities, CBK has issued on 01/09/2016 an awareness announcement detailing the methods and the order of procedures to be followed by clients in the case of submitting complaints to the entities before sending them to CBK. The awareness announcement contains an explanation of the mechanism used for submitting complaints to banks, investment companies, and financing companies along with the required steps.

- **Hosting a seminar on “Risk and Recovery and Resolution Planning (RRP) for Domestic Systemically Important Banks”**

CBK continues its efforts to enhance financial stability, identify the various factors that may be a source for shocks affecting the elements of this stability, and set the appropriate regulations to reduce and manage these risks. As part of these ongoing efforts, CBK has hosted a seminar on “Risk and Recovery and Resolution Planning (RRP) for Domestic Systemically Important Banks” organized by the Financial Stability Institute of the Bank for International Settlements in Basel. The seminar was organized in cooperation with the Secretariat General of the Gulf Cooperation

Council during the period from 3-5/5/2016, with the participation of representatives of central banks and monetary institutions of the Gulf Cooperation Council countries. The seminar was attended by experts from the Financial Stability Institute, the French Insolvency and Control Board, the Oesterreichische Nationalbank, McKinsey and Clifford Chance Consulting. Speakers were, among others: Central Bank of Kuwait (CBK) and Saudi Arabian Monetary Authority (SAMA).

- **The Completion of the application and activation of the 3D technology to implement electronic payment transactions**

The application and activation of the 3D technology to implement electronic payment transactions has been completed. It aims at increasing the efficiency of information security and the protection of bank accounts associated with the use of bankcards, through which an additional code is sent to the client’s mobile phone. The client, in turn, enters the code in the implemented transaction as a precondition for accepting and executing the transaction, resulting in a deduction of the amount from the client’s bank account. This is ensued after the banks and Knet were directed to apply the mechanisms and standards to protect Knet’s payment channel after it was defected, authorizing many operations without referring to the banks issuing the cards.

Third: Key Banking Operations

- Currency in Circulation
- Interbank Clearing and Settlement Operations
- Bank Transfers

I. Currency in Circulation

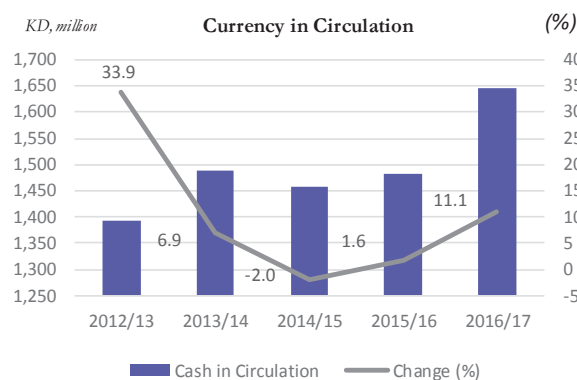
• Balance of Currency in Circulation

Value of currency in circulation increased by 11.1% at the end of FY2016/17

Breakdown of the available data reveals a hike by KD 164.2 million (11.1%) in the balance of currency in circulation by the end of FY2016/17 to reach KD 1,645.9 million against KD 1,481.7 million by the end of the previous fiscal year. Balance during the current year varied between:

- KD 1,669.7 million, which is the highest level by end of June 2016.
- KD 1,497.1 million, which is the lowest level by end of April 2016.

Chart (15)



Source: Central Bank of Kuwait

• The Quality of Banknotes in Circulation

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 minimum quality requirements, and fighting counterfeit and forgery of banknotes in collaboration with other government bodies.

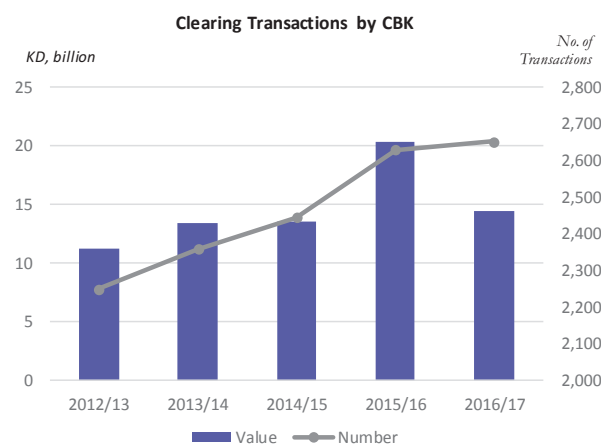
II. Local Interbank Clearing and Settlement Operations

• Transactions processed by CBK Clearing Room

The total value of clearing room's transactions decreased to reach KD 14.42 billion during FY2016/17

As for the transactions made by CBK clearing room, the total value of these transactions during FY2016/17 decreased to KD 14.42 billion for 2,652.4 thousand transactions (cheques) i.e. an average value of KD 5,436.7 per transaction, against KD 20.37 billion for 2,629.4 thousand transactions (cheques) i.e. an average value of KD 7,748.4 per transaction during FY2015/16.

Chart (16)



Source: Central Bank of Kuwait

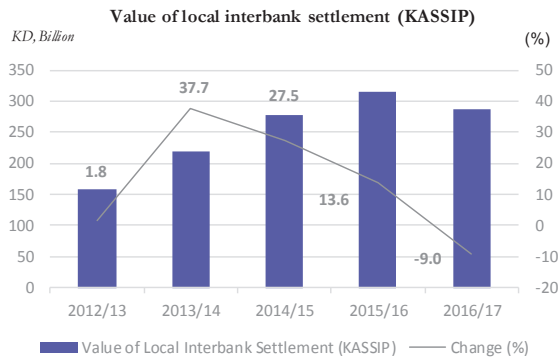
• Interbank Settlements

The Interbank Settlements declined by KD 28.38 billion or 8.98%

Available data indicate that interbank settlements carried out through CBK using Kuwait Automated Settlement System for Inter-participant Payments (KASSIP) amounted

to KD 287.508 billion during FY2016/17 against KD 315.889 billion during the previous fiscal year, i.e. a drop of KD 28.38 billion or 8.98%.

Chart (17)



Source: Central Bank of Kuwait

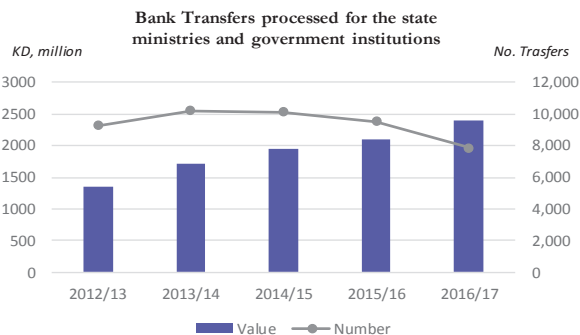
III. Bank Transfers and Transactions

• Local bank Transfers

The value of local bank transfers soared by 14.1% during FY2016/17

CBK executed 7,859 bank transfers in favor of ministries and different government institutions totaling KD 2,390.7 million during FY2016/17 against 9,504 bank transfers totaling KD 2,094.8 million during FY2015/16.

Chart (18)



Source: Central Bank of Kuwait

• External Bank Transactions

Other external bank transactions carried out by CBK in favor of ministries and government entities in the form of documentary credits and payable bills and drafts during FY2016/17 are tabulated below:

Table (6)

Particulars	No.	Value (KD)
A. Documentary Credits:		
1) Opened		
- Local	-	-
- Foreign	13	2,408.004.245
Total	13	2,408.004.245
2) Paid		
- Local	15	8,985.840
- Foreign	81	30,576.782
Total	96	39,562.622
3) Amended		
- Local	2	-
- Foreign	14	-
Total	16	
B. Collection Transactions:		
Bills for Collection		
a. Incoming	-	-
b. Paid-up	-	-
Total	-	-
C. Drafts for Collection	19	5,512

Source: Central Bank of Kuwait

Fourth: CBK Workforce

- CBK Staff Number
- Official Missions
- Training Courses and Programs
- Professional Certificates and Scholarships

The following shows CBK staff statistics development at the end of FY2016/17:

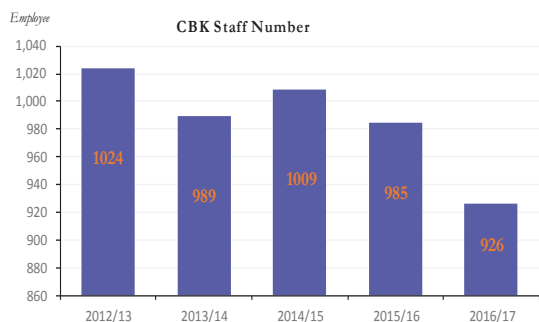
I. CBK Staff Number

- Staff Number in CBK

CBK total staff numbers declined by 6% at the end of FY2016/17

CBK total staff numbers reached 926 at the end of FY2016/17 against 985 at the end of FY2015/16. The number of Kuwaiti staff reached 814 (88% of the total) at the end of FY2016/17 against 868 (88% of the total) at the end of FY2015/16.

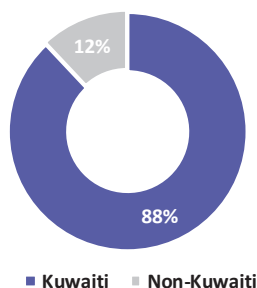
Chart (19)



Source: Central Bank of Kuwait

Chart (20)

CBK Staff by Nationality (2016/17)

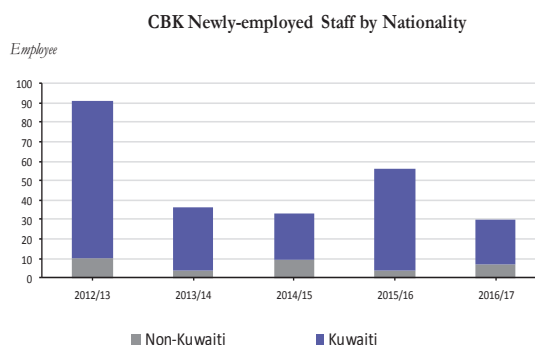


Source: Central Bank of Kuwait

- CBK New Staff

CBK appointed 32 new staff during FY2016/17 of whom 25 (78% of total recruits) are Kuwaitis against 22 new staff appointed during FY2015/16 of whom 18 were Kuwaitis (82% of total recruits).

Chart (21)



Source: Central Bank of Kuwait

- Employees' End of Service

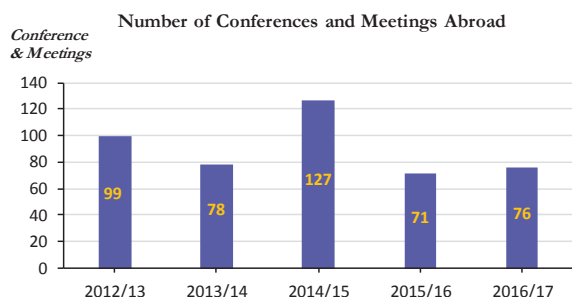
FY2016/17 witnessed end of service of 91 employees for the following reasons: Resignation of 53 employees, retirement of 23 employees, end of service of 8 employees, dismissal of 6 employees and death of one employee.

II. Official Missions

- Conferences and Meetings Abroad

A number of 150 staff were delegated to attend 76 conferences and meetings abroad during FY2016/17 (an increase of 6.4%) against 141 staff attended 71 conferences and meetings abroad during FY2015/16.

Chart (22)



Source: Central Bank of Kuwait

III. Training Courses and Programs

• Training Courses

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

A. Inside Kuwait

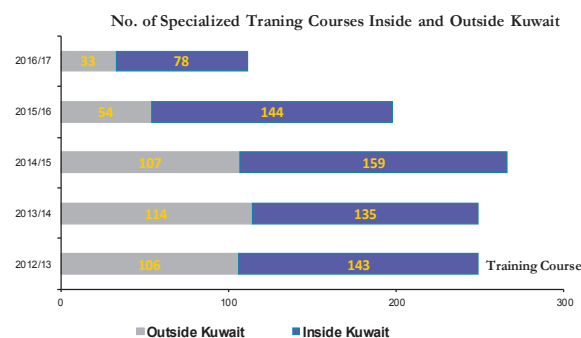
A total of 190 staff were delegated during FY2016/17 to attend 78 courses in cooperation with local bodies including the Institute of Banking Studies, Arab Planning Institute, Kuwait Institute for Scientific Research, a number of local banks and financial institutions, specialized private local training bodies, audit bureaus, and Civil Service Commission.

B. Outside Kuwait

A total of 57 staff were delegated during FY2016/17 to attend 33 regional, Arab and international training programs in coordination with a number of training bodies and institutions specialized in banking, finance and economics.

These include 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.

Chart (23)



Source: Central Bank of Kuwait

• Qualifying Kuwaiti Fresh Graduates

CBK has organized training programs for fresh graduate interns, whereby the Bank concluded training contracts with 6 fresh graduate interns and enrolled them in the internship program prepared for them in the related offices/departments. Moreover, 8 interns have been tenured during FY2016/17, against 40 during FY2015/16.

• Training University and Institute Students

During FY2016/17 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 16 during FY2016/17, compared with the same number during FY2015/16.

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

In collaboration with other local banks, CBK participated for the fifth 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 sixth batch for this program is currently being prepared by training fresh Kuwaiti graduates to participate in the program as of March 2017. Under this program, 3 university graduate interns were selected for CBK to participate in this program.

IV. Professional Certificates and Scholarships

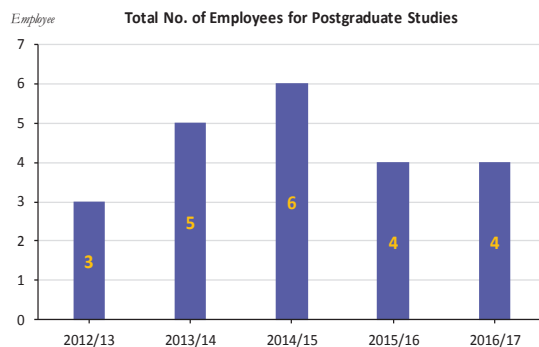
- **Professional Certificate Program**

The number of approved applications for the professional certificate reached 4 during FY2016/17, compared with 9 during FY2015/16.

- **Graduate Studies**

During FY2016/17 CBK has agreed to delegate 4 employees meeting the requirements to complete their postgraduate studies abroad, compared to 2 employees during FY2015/16. Moreover, the total number of employees offered postgraduate studies reached 5 at the end of FY2016/17.

Chart (24)

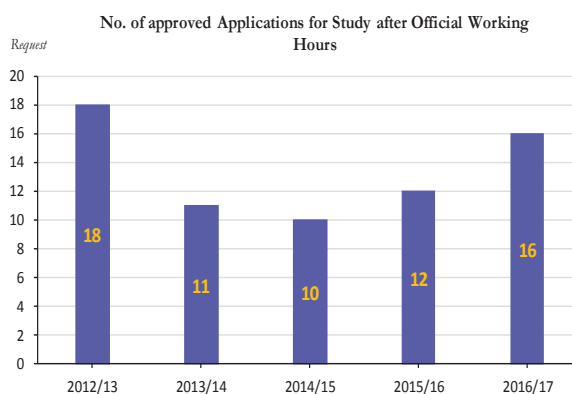


Source: Central Bank of Kuwait

- **Study after the CBK Official Working Hours**

CBK has approved 16 study completion requests during FY2016/17 compared with 12 requests for study completion after the official working hours during FY2015/16. The Human Resources Department made the necessary procedures and organized the process of study completion after the official working hours in accordance with CBK terms and controls thereon.

Chart (25)



Source: Central Bank of Kuwait

Fifth: Other Activities

- **CBK Efforts Towards Developing and Upgrading the Infrastructure of Information Technology**
- **CBK Efforts Towards Enhancing its Communication with the Components of the Economic and Financial Society**

I. CBK Efforts towards Developing and Upgrading the Infrastructure of Information Technology

CBK continued its efforts during FY2016/17 towards developing and upgrading the infrastructure of information technology in line with latest IT breakthroughs. Main efforts include the following:

- **CBK Project of Core Banking Operations Systems**

CBK has completed a project that includes the implementation, application and supervision of core banking operations systems related to the Banking Operations Department, Foreign Operations Department, Administrative Services Department and the Internal Audit Office, and exchange the old systems with new and advanced systems. The project includes the implementation of CBK new Accounts Tree as well as various core banking operations systems related to General ledger, Current Accounts, the Balance sheet, Cash, Treasury Affairs, Purchases, Stock and the integration of these systems to facilitate the procedures and automate the current manual operations.

The following phases of the project were completed during FY2016/17:

- Adapting the systems to meet the CBK requirements.
- Completing the initial tests, system integration tests and interconnection with other systems.
- Completing the implementation of the first and second phases of the final tests for accepting the systems.
- Transferring the system to the operational work entity.

- **Cash Management System Project**

The cash management system and the development and automation of cash management works in the treasury at CBK new headquarters has been implemented. These works include the scheduling and automating of cash deposits and withdrawals in banks, connecting with sorting machines and other bank's systems, in addition to controlling the automated system of the mechanized treasury works (MHS) and extracting reports thereon.

The following phases of the project were completed during FY2016/17:

- Completing the linking tests with other bank's systems.
- Completing system's acceptance tests.
- Transferring the system to the production environment.

- **Kuwait National IT Governance Framework (KNIGF) Project in partnership with The Central Agency for Information Technology**

The Central Agency for Information Technology has launched the KNIGF. The project aims at assessing the commitment of ministries and government entities and agencies to the best international practices in the area of IT procedures and policies. These may include: project management, risk management, information security management, training and knowledge management, technical management, change management, resources management, business continuity management and budget management.

The following has been achieved during FY2016/17:

- Completing the implementation of the stages agreed upon in 2016 plan.
- Submitting the quarterly reports to the Agency.
- **Supervise the Implementation of Technical Projects**

CBK has followed up the implementation of technical projects concerned with the development of the systems linked to CBK departments and operations, which are supervised and implemented by the Information Technology and Banking Operations Sector, and prepared quarterly and semi-annual reports to submit them to the higher management.

- **Audit the Quality Management System (ISO 9001:2015)**

Reviewing and checking up procedures on all the performed operations to verify their compliance with the Quality Management System “ISO 9001:2015”. It is worth mentioning that the Quality Management System is an international system certified under the series “ISO 9001:2015” and consists of several essential items, such as:

- Documentation requirements for IT operations, policy, objectives, and procedures thereon.
- Management responsibility and commitment to planning quality objectives and concentrate on the beneficiaries’ demands.
- Managing human resources, infrastructure, work environment and the measures taken to improve them.
- Evaluate product and service delivery plans, and the steps to be taken to design, develop,

review and control the products and services.

- Manage the risks that may arise during the implementation of the plans.
- Measuring, analyzing and improving the processes and procedures conducted in the Information Technology and Banking Operations Sector.
- Internal auditing and periodic reviewing to ensure full application of the Quality Management System and its efficiency.
- **Setting the Annual Goals for the Quality of Information Technology and Banking Operations Sector in line with the Requirements of the Quality Management System “ISO 9001:2015”**

CBK has approved 51 objectives for Information Technology and Banking Operations Sector for the fiscal year 2016/2017.

These objectives relate to the Bank’s strategy towards a comprehensive development of the business system, and 84% of the total approved goals were achieved.

II. CBK Efforts Towards Enhancing its Communication with the Components of the Economic and Financial Society

During FY2016/17, CBK has undertaken 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:

- **The Media Field**

In an attempt to highlight the Bank's prestige and keep up with the progressive developments witnessed by media industry in the world, and following the directives of His Excellency the Governor, the CBK management has adopted a balanced media policy aimed at demonstrating CBK achievements and its vital role which is derived from its objectives stipulated in the decrees and laws of its establishment. These laws stipulate the maintenance of financial stability and the practice of the supervisory role on the monetary policies and banking system of the State of Kuwait. In this regard, the management achieved the following:

- Publishing 40 press material including press statements, press releases and news on local newspapers, Kuwait News Agency (KUNA) and other news agencies.
- Publishing 160 decisions in the State of Kuwait's Official Gazette (Al Kuwait Al-Youm).
- Posting 617 posts on CBK social media accounts and channels, such as Twitter, Instagram and YouTube.
- Increasing the numbers of followers on CBK social media accounts. Followers on Twitter reached 7147, 1156 followers on Instagram, 507 followers in the CBK staff communication channel on Instagram.
- Preparing and disseminating infographic awareness campaigns for CBK customers and employees.

- **Consolidation of Connections and Public Relations**

In an attempt to strengthen good relations between the Bank and the relevant international and local institutions, as well as among the Bank's employees, the management was keen to organize events and make use of events to consolidate relationships and maintain a positive level of professional and personal relations. CBK believes in the importance of such communication to improve the Bank's image and the performance of its employees. For this purpose, the management conducted the following:

- Organize H.E. the Governor's receptions on occasions like (Eid al-Adha - honoring distinguished employees - welcoming the employees at the beginning of the new year).
- Prepare to host H.E the Governor's visitors (members of CBK Board of Directors – the Governor of Central Bank of Egypt and his escorting delegation).
- Organize workshops (Capital Markets Authority (CMA) trainees - anti-money laundering and financing terrorism - new amendments to audit reports - exchange companies concerning the requirements of CBK instructions issued in the framework of regulating the work of the exchange companies) and the panel discussion organized by the Financial Stability Institute.
- Organize field visits of the members of the Saud N. Al-Sabah Kuwait Diplomatic Institute and the delegation of the Ministry of Finance and Economic Planning in the Republic of Sudan.
- Organize the 48th meeting of the GCC Payment Systems Technical Committee.

- Enhance social ties between employees by organizing an open day for the Bank's employees.
- Provide discounts and special offers for employees.

• **Documentation and Museum Display**

Believing in CBK role in transmitting its accumulated knowledge and experience, taking pride in its history, and documenting the historical moments in monetary, financial and economic policies, as well as the role of the historical leaders who had, successively, administrated CBK, the management conducted the following:

- Preparing and presenting a booklet of terms of reference, and following up with companies that applied for implementing the project of CBK Museum.
- Launching a campaign to celebrate the 130th anniversary of the issuance of the first Kuwaiti currency coin "Paisa" as the first national currency issued in 1886.



A commemorative coin issued on the 130th Anniversary of the First Kuwaiti Currency Coin "Paisa".

- Collecting historical holdings and accessing the contents of conservation centers in CBK departments to seek historical documents and collectibles.
- Offering a vision and a methodology to develop the Bank's historical documents.

- Counting and visiting most museums in the State of Kuwait to learn innovative presentation systems, the nature of work, and to strengthen the connections with the managers of these museums.

• **Offering Printing Services**

In order to present CBK printed materials in the best possible form, to establish a new unified identity for the Bank to be used in its publications and reports, control expenses and rationalize spending, and to implement the periodic work of the Printing Press Section, the management has conducted the following:

- Designing the logo of the Paisa coin.
- Designing the logo for Kuwait as Capital of Islamic Culture coin.



A commemorative coin issued on designating the State of Kuwait as Capital of Islamic Culture in 2016.

- Designing and implementing the Amiri gift boxes for the opening ceremony of CBK headquarters.
- Outlining and producing the Islamic Banking Supervision Guideline (updated May 2014).
- Outlining and producing the Conventional Banking Supervision Guideline (updated May 2014).
- Implementing (84) work orders for different departments varying between statistics, reports, models, cards, stickers and notes.

III. CBK New Headquarters

During FY2016/17, all supplies and requirements of CBK various departments and offices were provided. Moreover, all arrangements and procedures for the transfer of the Bank's departments and offices to the new headquarters were arranged.

CBK new building is designed in accordance with the latest international architectural concepts. The CBK tower project has been awarded the MEED Quality Awards for Projects (construction project for the year 2016) at the local level, and is recognized as the best project and landmark in the State of Kuwait as well as one of the major distinct projects in the region.



CBK project wins the prestigious MEED award for Leading Constructions and Project Quality "The Project of the year 2016"

Sixth: CBK Financial Statements for the Fiscal Year ended 31 March 2017

- Auditors' Report.
- Balance Sheet as at 31 March 2017.
- Profit & Loss Account For FY ended 31 March 2017.
- Notes to the Financial Statements (31 March 2017).

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 present fairly the financial position of the Bank as at 31 March 2017 and the results of its operations for the year then ended, in compliance with Law No. 32 of 1968 and amendments thereto.

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
AL AIBAN, AL OSAIMI & PARTNERS
ERNST & YOUNG

SAFI AL-MUTAWA
LICENCE NO. 138A
KPMG Safi Al-Mutawa & Partners
MEMBER FIRM OF KPMG INTERNATIONAL

State of Kuwait on 9 May 2017

Balance Sheet as at 31 March 2017

(All amounts in KD)

Assets	Notes	31 March 2017	31 March 2016
Gold	2	31,737,898	31,737,848
Cash, current and call accounts in foreign currency with banks and other financial institutions		809,165,618	686,885,705
Deposits and investments in foreign currency	3	8,649,455,720	8,545,966,810
Other assets	4	38,941,712	36,400,069
		9,529,300,948	9,300,990,432
Accounts managed by CBK on behalf of the Kuwaiti government and contra accounts	10	7,139,328,222	2,534,339,231

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

Balance Sheet as at 31 March 2017

(All amounts in KD)

Equity and Liabilities	Notes	31 March 2017	31 March 2016
Capital - fully paid up		5,000,000	5,000,000
General Reserve Fund	5	369,813,367	325,046,262
Special account	6	37,084,210	73,183,446
Profit for the year		65,620,440	44,767,105
Currency in circulation	7	1,645,937,464	1,481,709,975
Bonds issued by CBK	8	1,800,000,000	1,825,000,000
Government accounts		1,624,546,642	596,273,201
Local banks' current accounts and deposits with CBK	9	3,098,878,327	4,244,443,457
International institutions		196,827,006	187,788,460
Guarantees on documentary credits	10	508,793,916	248,011,056
Other liabilities	11	176,799,576	269,767,470
Total Equity and Liabilities		9,529,300,948	9,300,990,432
Accounts managed by CBK on behalf of the Kuwaiti government and contra accounts	10	7,139,328,222	2,534,339,231

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

Profit & Loss Account For the FY ended 31 March 2017

(KD)

Items	Notes	31 March 2017	31 March 2016
Interest and income from investments		107,720,078	90,777,501
Interest and commissions expenses		(28,596)	(50,307)
		<u>107,691,482</u>	<u>90,727,194</u>
Other income		1,745,879	3,593,040
Operating income		109,437,361	94,320,234
Operating expenses	12	(43,816,921)	(49,553,129)
Net profit for the year		<u><u>65,620,440</u></u>	<u><u>44,767,105</u></u>
Appropriated according to Article 17 of Law 32 of 1968 and amendments thereto, as follows:			
to General Reserve Fund's Account	5	<u><u>65,620,440</u></u>	<u><u>44,767,105</u></u>

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

1. THE BANK'S ACTIVITIES

The Central Bank of Kuwait (the "Bank") is a public institution with an independent juristic personality, incorporated in Kuwait by Law No. 32 of 1968, and amendments thereto. The Bank is responsible for the issue of the Kuwaiti currency on behalf of the State of Kuwait, its stability and its free convertibility into other currencies, directing the monetary and credit policies, supervision of the banking and financial systems and serving as the banker and the financial advisor to the Government of Kuwait.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Law No. 32 of 1968 and amendments thereto. The 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 their purchase cost.

c. Cost of Money Market Transactions

The cost of intervention in the money market (bonds issued by the Bank, local banks' deposits and Tawarruq deals) is charged to the Ministry of Finance's Account – Transaction Cost of Intervention in the money market, in accordance with the agreement between the Bank and the Ministry of Finance (Note 11).

d. Revenue Recognition

Interest income 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 the profit and loss account in the year of authorization.

f. Foreign Currencies

In accordance with Article 48 of Law 32 of 1968, and amendments thereto and the Amiri Decree issued on 4 July 1978, monetary assets and liabilities denominated in foreign currencies are revaluated at the exchange rate prevailing at the balance sheet date. Resultant gains or losses are taken to the special account in the balance sheet (Note 6).

3. DEPOSITS AND INVESTMENTS IN FOREIGN CURRENCIES (KD)

Items	31 March 2017	31 March 2016
Deposits with banks and foreign institutions	8,644,885,220	8,541,439,810
CBK Facilities to International Bank for Reconstruction and Development	4,570,500	4,527,000
	8,649,455,720	8,545,966,810

4. OTHER ASSETS (KD)

Items	31 March 2017	31 March 2016
Accrued interest on deposits and other assets	23,563,190	21,482,018
Investments denominated in Kuwaiti Dinars	2,791,210	2,791,210
Prepaid expenses	2,611,404	4,893,531
Advance payments	-	-
Other receivables	9,975,908	7,233,310
	38,941,712	36,400,069

5. GENERAL RESERVE FUND

In accordance with Article 17(3) (a) and (b) of Law 32 of 1968, and amendments thereto, the net profit of the Bank is to be paid into the General Reserve Fund (the "Fund") until the balance of the Fund amounts to KD 25 million unless the Board of Directors recommends and the Minister of Finance approves further increase in the Fund. In 1985, the Board's recommendation to increase the Fund to KD 179 million was approved by the Minister of Finance and Economy. Based on the Board's resolution dated 5 May 2003 and the approval of the Minister of Finance dated 7 May 2003, the balance of the Fund was increased by KD 116 million to KD 295 million by annually transferring 50% of the Bank's net profit to the Fund's balance in 2007.

Based on the resolution of the Board of Directors dated 21 October 2014 and the approval of the Minister of Finance dated 29 October 2014, it was agreed to increase the Fund's balance of the Bank by KD 705 million to reach an aggregate balance of KD 1,000 million. To reach the balance, the Bank will transfer all the net profit of each year to the Fund.

Net profit for the year will be transferred to the Fund after the financial statements are approved by all the concerned authorities.

6. SPECIAL ACCOUNT (KD)

Items	31 March 2017	31 March 2016
Balance at the beginning of the year	73,183,446	54,083,902
Net foreign currency translation difference from revaluation of monetary assets and liabilities denominated in foreign currencies	(36,099,236)	19,099,544
Balance at the end of the year	73,084,210	73,183,446

The special account represents the net foreign currency translation difference resulting from the revaluation of monetary assets and liabilities denominated in foreign currencies and the gain on withdrawal of currency notes from circulation based on Article 48 of Law No. 32 of 1968 and amendments thereof, and the Amiri Decree issued on 4 July 1978.

7. CURRENCY IN CIRCULATION (KD)

Items	31 March 2017	31 March 2016
Net currency issued	2,266,359,900	2,117,751,410
Less: currency in the CBK vaults	(620,422,436)	(636,041,435)
	1,645,937,464	1,481,709,975

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

Currency in the CBK vaults is comprised of strategic inventory of notes, cash ready for use in the daily transactions (deposit and withdraw) and unfit notes ready for destruction.

On 19 April 2015, CBK has issued the resolution No. (37/405/2015) to withdraw all banknotes from the all old banknotes against its nominal amount value which should not be later than 1 October 2015.

The fifth issuance banknotes can be exchanged at CBK from 1 October 2015 till 18 April 2025.

8. ISSUED BONDS

CBK bonds are tradable. Their purchase is limited to local banks and local investment companies that are subject to CBK regulation. CBK uses these bonds to manage the local liquidity.

9. LOCAL BANKS' CURRENT ACCOUNTS AND DEPOSITS WITH CBK (KD)

Items	31 March 2017	31 March 2016
Current accounts	941,703,423	1,551,532,570
Deposits	1,095,000,000	390,000,000
Tawarruq - (Takings)	1,062,174,904	2,302,910,887
	3,098,878,327	4,244,443,457

10. ACCOUNTS MANAGED BY CBK ON BEHALF OF THE GOVERNMENT OF THE STATE OF KUWAIT, AND CONTRA ACCOUNTS (KD)

Items	31 March 2017	31 March 2016
(a) Accounts managed by CBK on behalf of the Kuwaiti government	4,550,352,572	2,279,595,080
(b) Contra accounts:		
Letter of Credit	2,586,010,425	251,796,745
Memorial Coins	2,965,225	2,947,406
	2,588,975,650	254,744,151
Collections According to Law No. 41 of 1993	7,139,328,222	2,534,339,231

On 31 March 2017, CBK held guarantees of KD 508,793,916 (2016: KD 248,011,056) against the letters of credit referred to above.

11. OTHER LIABILITIES (KD)

Items	31 March 2017	31 March 2016
Payable expenses	10,476,651	10,552,360
Other payables	165,670,386	248,273,990
Ministry of Finance's - Cost of Intervention in the money market (Note 2)	652,539	10,941,120
	176,799,576	269,767,470

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

The Balance of Ministry of Finance's – Transaction Cost of Intervention in the money market transactions represents the available balance out of the amounts transferred from the Ministry of Finance after charging the cost to support the intervention in the money market according to what has been agreed upon between CBK and the Ministry of Finance.

12. OPERATING EXPENSES (KD)

Items	31 March 2017	31 March 2016
Employee costs	28,724,534	29,284,378
Administrative and computer costs	6,433,080	6,143,588
Purchase of furniture and equipment	207,570	1,095,626
Production and shipment of currency	2,117,350	1,299,887
Sundry expenses	2,830,793	3,125,560
Construction costs	3,503,594	8,604,090
	43,816,921	49,553,129

13. PROMISSORY NOTES HELD

On 31 March 2017, the amount of promissory notes held by CBK in safe custody on behalf of international institutions was KD 608,035,092 (2016: KD 611,386,389).

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