

بنك الكويت المركزي  
CENTRAL BANK OF KUWAIT



# Annual Report for the Year 2017 / 2018



بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ



**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

## BOARD OF DIRECTORS



**Dr. Mohammad Y. Al-Hashel**

Governor  
Chairman



**Mr. Yousef J. Alobaid**

Deputy Governor  
Member

“ The Central Bank of Kuwait is managed by a Board of Directors encompassing the Governor of CBK - chairman, the Deputy Governor of CBK, a representative of the Ministry of Finance and a representative of the Ministry of Commerce and Industry. The Board also comprises of four other members with proven experience in the economic, financial and banking affairs, appointed by an Amiri Decree for a renewable three-year term. ”

The Board of Directors exercises its authority in accordance with Article 26 of Law No. 32 of 1968



**Mr. Khalifa M. Hamada**  
Undersecretary  
Ministry of Finance  
Member



**Mr. Ahmad M. Al-Faris**  
Assistant Undersecretary  
Ministry of Commerce & Industry  
Member



**Mr. Nasser Abdullah Alroudan**  
Member



**Mr. Mustafa J. Al-Shamali**  
Member



**Mr. Osamah Mohammad Al-Nisf**  
Member



**Mr. Ahmed Y. Al-Sager**  
Member

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# INTRODUCTION



I am pleased to present the 46th Annual Report of the Central Bank of Kuwait (CBK) for the Fiscal Year (FY) 2017/18 that includes the Auditors' Report on CBK financial statements as of 31st March 2018. The first section of the Report is dedicated as usual to an overview of the most notable monetary and banking developments in the Kuwaiti economy during FY2017/18. 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.

FY2017/18 witnessed the ceremony of inauguration of CBK's new building, a notable event sponsored by His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah and graced with his kind attendance, as well as that of His Highness the Crown Prince and senior state officials; the event marked a key CBK achievement of standards befitting the honored guests and the bank's name and history.

**“ CBK continues to focus on strengthening the foundations of monetary and financial stability in the State of Kuwait through formulating and implementing monetary policy ”**

Furthermore, CBK's efforts during FY2017/18 focused on strengthening the foundations of monetary and financial stability in the State of Kuwait through formulating and implementing monetary policy and developing methods for supervision and oversight over the banking and financial sector, aimed at boosting 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 June 2017, CBK had issued a circular to all local banks and finance companies to amend rules and regulations pertaining to the prerequisite expertise required for a bank's board to assign a board-member or other party to carry out a specific task, or to oversee a specific aspect of the bank's activities, or to exercise some management powers and prerogatives. This was in addition to amendment of the conditions pertaining to the prerequisite expertise required for a party to be appointed to the position of Chief Executive Officer (CEO), Deputy CEO, or Assistant CEO. CBK was also keen on bolstering information systems, networks, and means of communication between banks and their clients with the objective of countering fraudulent financial operations faced by all financial and banking sectors worldwide. The CBK had also continued its supervision and oversight efforts during FY2017/18 to promote financial stability and signed, towards that end, a Memorandum of Understanding (MoU) with the Capital Markets Authority (CMA) to define a framework of coordination and identify responsibilities and competences in supervising and overseeing activities of CBK-regulated units and the issued and traded instruments subject to CMA supervision.

**“ CBK was also keen during FY2017/18 on bolstering information systems, networks, and means of communication between banks and their clients with the objective of countering fraudulent financial operations faced by all financial and banking sectors worldwide. ”**




Furthermore, CBK had during FY2017/18 strove to improve its national staff capabilities and upgrade their academic and professional standing by offering higher study scholarships to prestigious international universities, and through local/international specialized training programs in a manner that helps both enhance CBK staff performance and retain national staff members of excellence and strong performance, which ultimately supports the bank in its performance. To that end and in collaboration with Kuwaiti banks and the Institute of Banking Studies, the CBK continued initiatives aimed at development of capabilities of national cadres in the banking and financial sectors, most notable of which are the Master's Degree Scholarship Program (MDSP), the Kuwaiti Graduates Development Program (KGDP), and the Executive Leaders Development Program, which are executed in cooperation with prominent Gulf, Arab, and international institutions.

### **“Development of capabilities of national cadres in the banking and financial sectors”**

On another front, the CBK had during FY2017/18 continued to modernize and develop its IT infrastructure in line with the latest international developments in the field. This involved completing several IT development projects, most prominent of which are the “Core Banking Operation System”, replacement of “CBK Signature-Verification System and Cheque Clearing System”, supervising the “Supply and Implementation of the National Payment System” project, introduction of the “Enhanced Time-Series System” (FAME) and the upgraded “Islamic Banking Oversight System” and implementation of the “Reputation Protection Service Project”.

**“The CBK had formulated and implemented an unbiased media policy that highlights its roles and efforts in implementation of the monetary policy and development of the banking regulation and supervision programs that aim to maintain monetary stability and provide an environment supportive of sustainable economic growth and financial stability”**



Aiming to enhance communication with the economic/financial community and the public, and to adjust to accelerating advancements in the media and communications industry, the CBK had formulated and implemented an unbiased media policy that highlights its roles and efforts in implementation of the monetary policy and development of the banking regulation and supervision programs that aim to maintain monetary stability and provide an environment supportive of sustainable economic growth and financial stability. In this respect, CBK has continued its efforts during FY2017/18 to prepare its periodical publications, which include latest economic, financial, and banking statistics and data, including the Economic Report 2017 and the Financial Stability Report 2017. The bank also continued efforts to update CBK website design and content in line with the transparency policy it pursues. In terms of expanding the bank's electronic publishing base, there was an increase in the number of followers of CBK social networking accounts during FY2017/18 in an indication of improved connection and exchange with members of the public as well as with local and international institutions. CBK was also keen on strengthening interaction and relations among staff and sought to achieve that through organizing several events and marking various occasions.

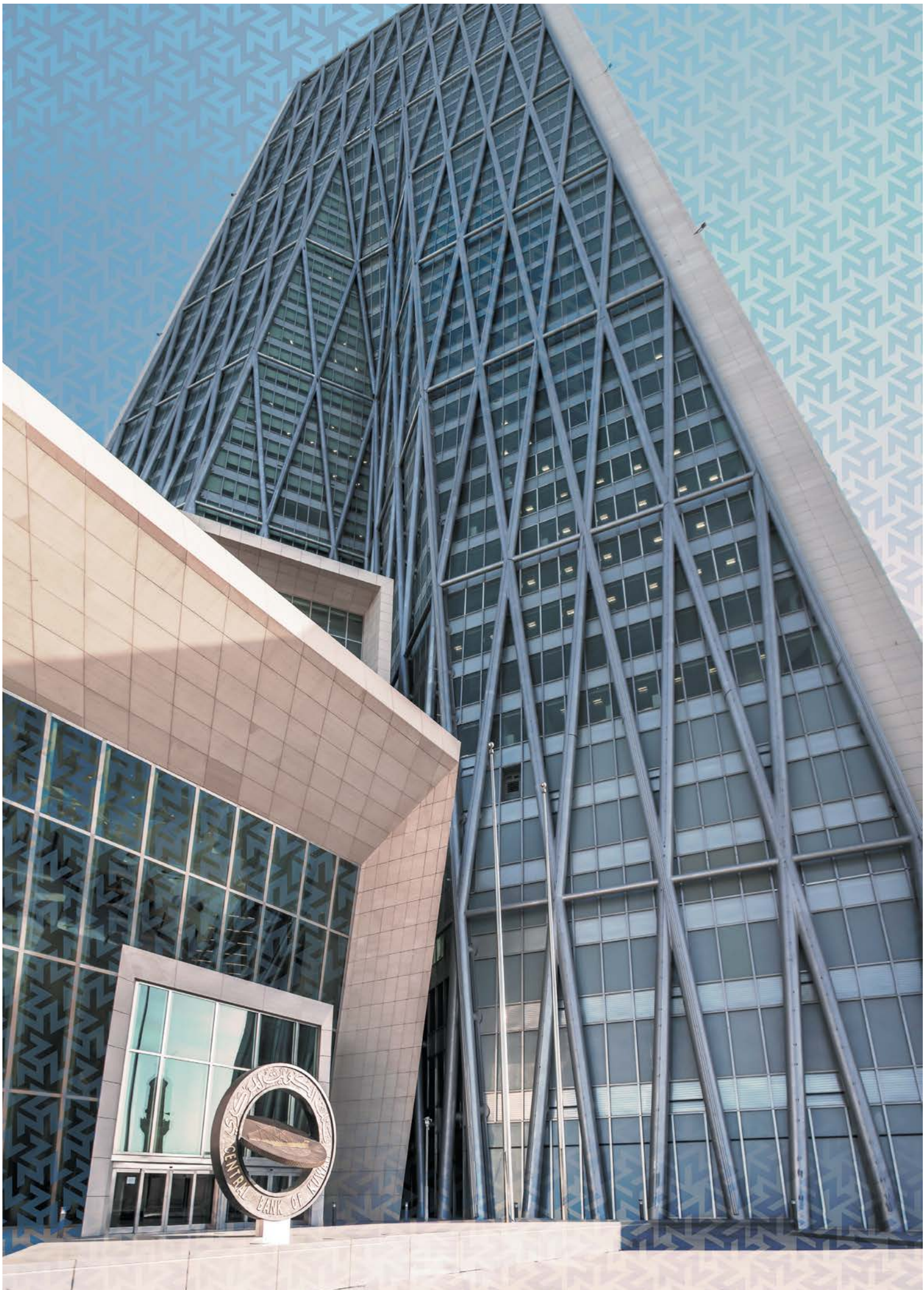
In conclusion, we pray to Allah the Almighty to grant success to our efforts and endeavors for the welfare of our beloved country, under the patronage and good counsel of His Highness the Amir, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah; His Highness the Crown Prince, Sheikh Nawwaf Al-Ahmed Al Jaber Al-Sabah; 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, Central Bank of Kuwait

# **First: Monetary and Banking Indicators**

- Monetary Developments
- Banking Developments

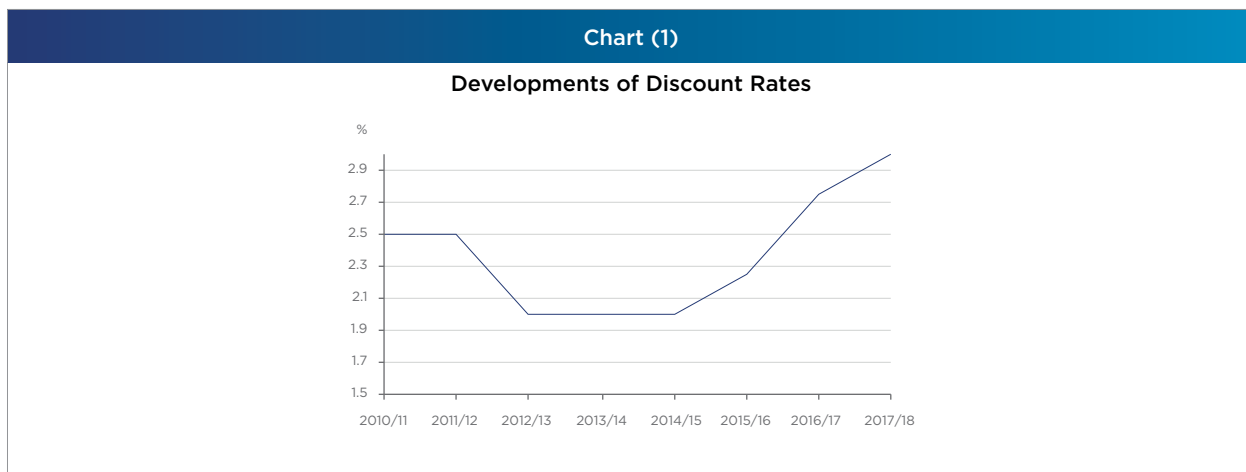


## First : Monetary Developments

This part of the Report highlights the key developments relating to Kuwait's major monetary and banking indices during FY2017/18 as reflected in data on interest rates, KD exchange rate against major currencies, money supply, residents' deposits by type, 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 FY2017/18 indicate the following notable and positive developments:

### 1. Domestic Interest Rates:

In light of constant CBK 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 continuation of the CBK effort to strengthen the foundations of domestic economic growth while maintaining KD's attractiveness and competitiveness as a store of domestic savings, which form the main source of finance provided by local banking and financial sector units to various sectors of the national economy, thus maintaining a supporting environment for sustainable economic growth, the CBK had during FY2017/18 raised its Discount Rate by 25 base points in March 2018, to bring it up from 2.75% to 3.00%, following the US Federal Reserve's raising of the interest rate by 0.250 percentage point, at same said date.



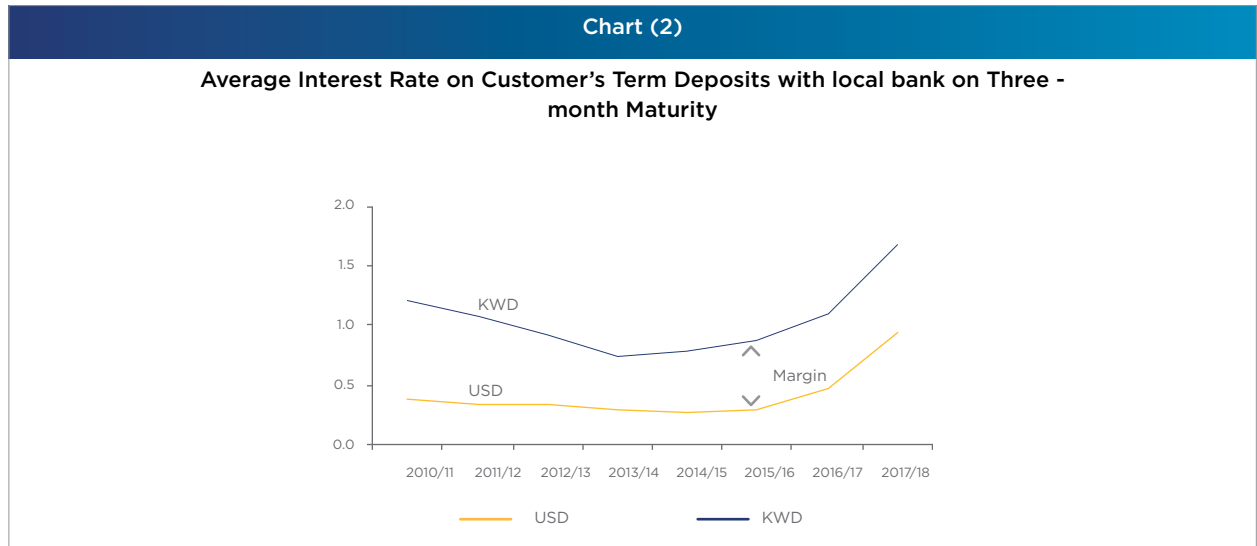
Source: Central Bank of Kuwait

Within this context and in terms of interest rates on customers' KD and USD deposits with local banks, average interest rates on customers' KD time deposits witnessed a rise during FY2017/18 compared with the previous fiscal year. Specifically, the average interest rates on KD time deposits of one month and three-month maturity increased to 1.529% and 1.682% respectively against 0.903% and 1.108% during the previous fiscal year.

**“Margins between the average interest rates on KWD and USD time deposits with local banks continued to expand in favor of the KD”**

On the other hand, average interest rates on USD time deposits with local banks of one month and three-month maturity increased during FY2017/18 reaching 0.781% and 0.944% respectively, against 0.326% and 0.470% 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 FY2017/18 reached 0.748 percentage point and 0.738 percentage point respectively, in favor of KD deposits, compared to 0.577 and 0.638 percentage point respectively, also in favor of KD deposits, during FY2016/17.



Source: Central Bank of Kuwait

On the other hand, the average interest rate on local interbank KD deposits of all maturities increased during FY2017/18 compared to the previous fiscal year. Specifically, the average interest rate on local interbank KD deposits of one-month maturity increased to 1.419% against 1.097% for the mentioned term during the previous fiscal year.

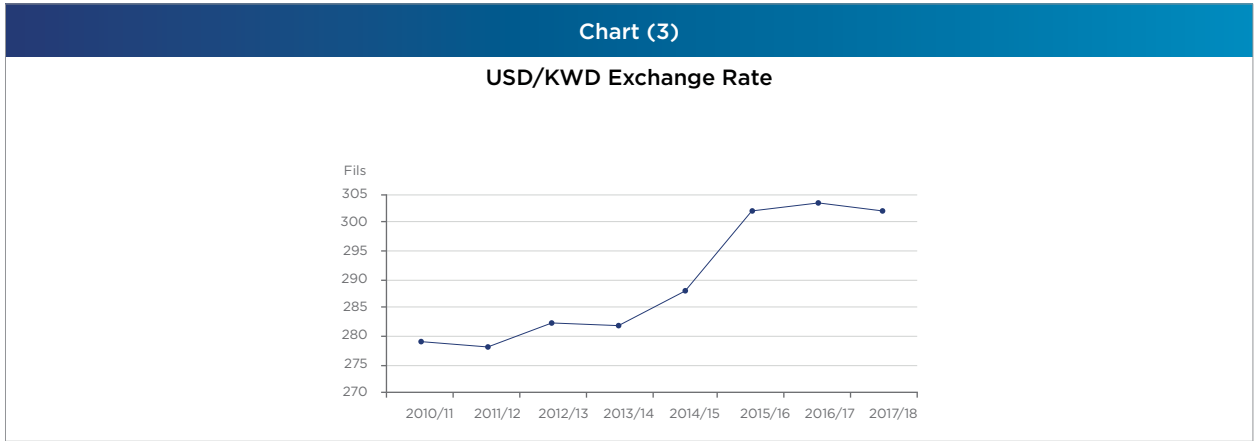
In addition, the average interest rate on public debt instruments on Kuwaiti Treasury Bonds of one-year maturity reached 2.500% during FY2017/18. The average interest rate on 2-year Treasury Bonds reached 2.750%, while the average interest rates on 3, 5, 7 and 10-year Treasury Bonds reached 2.875%, 3.250%, 3.375% and 3.875% respectively.

## 2. KD Exchange Rate:

During FY2017/18, CBK continued its efforts towards maintaining relative stability of KD exchange rate against other major currencies in line with KD exchange rate policy adopted since 20 May 2007 pegging the Kuwaiti Dinar to a special weighted basket of currencies of countries that share significant financial and trade 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 rates of the USD against the KD reached 2.0%. ”**

In this regard, the average exchange rate of USD against KD for FY2017/18 was 302.05 fils (per USD) against 303.09 fils during the previous fiscal year, i.e. a decrease of 1.04 fils or 0.34%. The average difference between the highest (305.3 fils) and the lowest exchange rate (299.2 fils) of USD against KD was 2.0% during FY2017/18.



Source: Central Bank of Kuwait

Conversely, the exchange rate of USD witnessed fluctuations against the other major currencies during FY2017/18. The difference between the highest and the lowest rates of USD was 17.8% against Euro, 15.5% against Pound Sterling, 9.1% against Japanese Yen, and 8.9% against Swiss Franc.

**Table (1)**

**USD Exchange Rate against KD and Some Major Currencies**

Item	2017/2018			
	Highest Price	Lowest Price	End of Period	Average
<b>Kuwaiti Dinar (fils)</b>	305.25	299.200	299.75	302.05
<b>Pound Sterling</b>	0.8081	0.6994	0.7100	0.7539
<b>Euro</b>	0.9448	0.8021	0.8112	0.8548
<b>Swiss Franc</b>	1.0093	0.9266	0.9561	0.9710
<b>Japanese Yen</b>	114.2500	104.7600	106.590	110.82

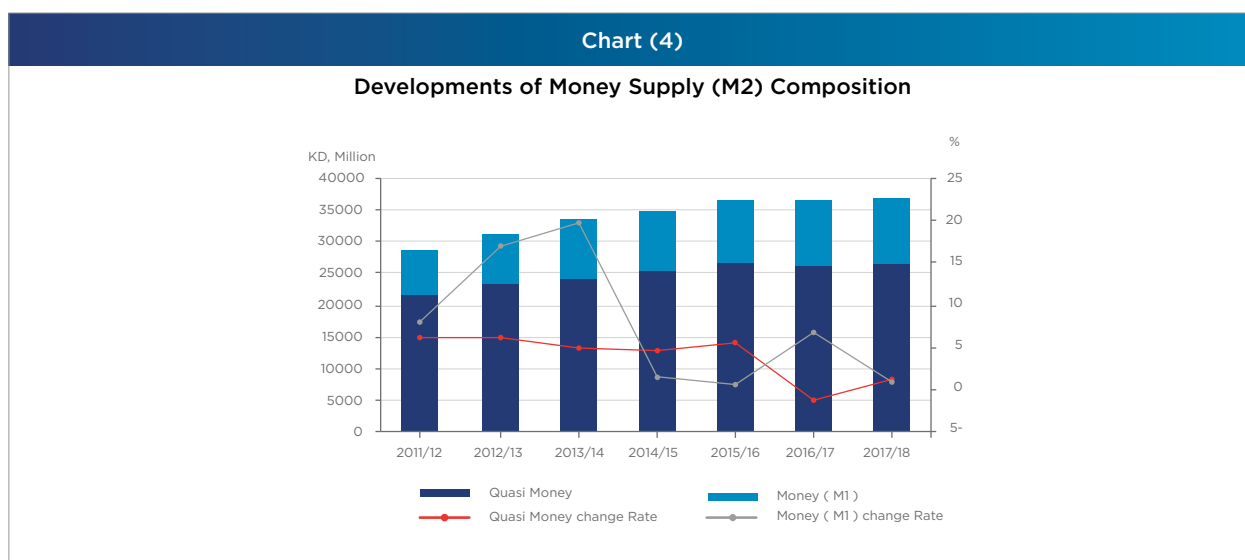
Source: Central Bank of Kuwait

### 3. Money Supply:

Money Supply in its Broad Definition (M2) increased to KD 37,095.0 million at the end of FY2017/18 against KD 36,704.2 million at the end of FY2016/17, i.e. an increase of KD 390.8 million or 1.1% compared with an increase of KD 272.5 million or 0.7% during the previous fiscal year.

**“ Modest growth in Money Supply (M2) following the slowdown witnessed in the previous fiscal year ”**

The increase in M2 resulted in part from continuous CBK effort to manage the levels of domestic liquidity, creating the appropriate atmosphere to boost growth rates of various domestic economic sectors.



Source: Central Bank of Kuwait

**Table (2)**

**Money Supply Developments (M2)**  
(KD million)

End of Period	16/2017	17/2018	Change in (2) over (1)	
	(1)	(2)	Value	(%)
<b>Money Supply (M2)</b>	36,704.2	37,095.0	390.8	1.1
<b>Money (M1) of which:</b>	10,309.1	10,392.0	82.9	0.8
<b>Sight Deposits</b>	8663.1	8,668.2	5.0	0.1
<b>Quasi Money</b>	26,395.1	26,703.0	307.9	1.2
<b>KD Deposits (other than sight deposits)</b>	23,546.0	24,114.0	568.1	2.4
<b>FC Deposits</b>	2,849.1	2,589.0	-260.1	-9.1

Source: Central Bank of Kuwait

As for the factors affecting the changes in M2 within the aggregate monetary position of CBK and of local banks at the end of FY2017/18 compared with the end of the previous fiscal year, the mentioned rise of KD 390.8 million or 1.1% in M2 resulted from the increase of KD 900.3 million or 4.6% in net domestic assets of these entities on one hand and the decrease of KD 509.5 million or 2.9% in net foreign assets of these entities.

The above-mentioned rise in net domestic assets amounting to KD 900.3 million was due to:

- Increase in local banks' claims on the private sector by KD 647.1 million or 1.8%, which was in turn the outcome of the growth of KD 671.5 million or 1.9% in credit facilities extended to residents, and the decrease of KD 24.4 million or 1.3% in value of other local investments.
- Rise of KD 777.9 million or 19.2% in claims on the government.
- Decrease of KD 50 million or 0.6% in government's deposits and accounts.
- Drop of KD 474.7 million or 3.7% in net domestic assets under the item "other".

Meanwhile, the mentioned decrease in net foreign assets of these entities was the outcome of the following:

- Decline of KD 1,026.8 million or 12.8% in net foreign assets of local banks.
- Increase of KD 517.2 million or 5.6% in net CBK foreign assets.

Table (3)

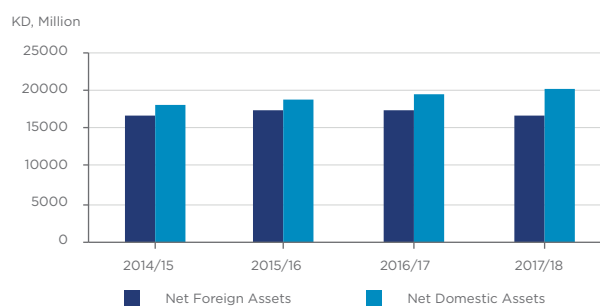
## Factors Affecting Change in Money Supply

End of Period	16/2017	17/2018	Change in (2) over (1)	
	(1)	(2)	Value	%
<b>Net Domestic Assets:</b>	<b>19,405.5</b>	<b>20,305.8</b>	<b>900.3</b>	<b>4.6</b>
- Claims on the Private Sector	36,718.6	37,365.6	647.1	1.8
- Claims on the Government	4,050.1	4,828.0	777.9	19.2
- Government's Deposits and Accounts*	8,510.5	8,560.5	-50.0	-0.6
- Other (Net)*	12,852.7	13,327.4	-474.7	-3.7
<b>Net Foreign Assets:</b>	<b>17,298.7</b>	<b>16,789.2</b>	<b>-509.5</b>	<b>-2.9</b>
- CBK	9,293.5	9,810.8	517.2	5.6
- Local Banks	8,005.2	6,978.4	-1026.8	-12.8

\* Negative sign indicates a deflationary effect on Money Supply (M2), while a positive sign indicates an expansionary effect on Money Supply (M2)  
Source: Central Bank of Kuwait.

Chart (5)

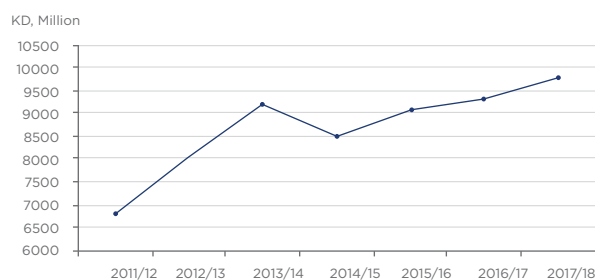
## Factors affecting Money Supply (M2)



Source: Central Bank of Kuwait.

Chart (6)

## CBK's Net Foreign Assets



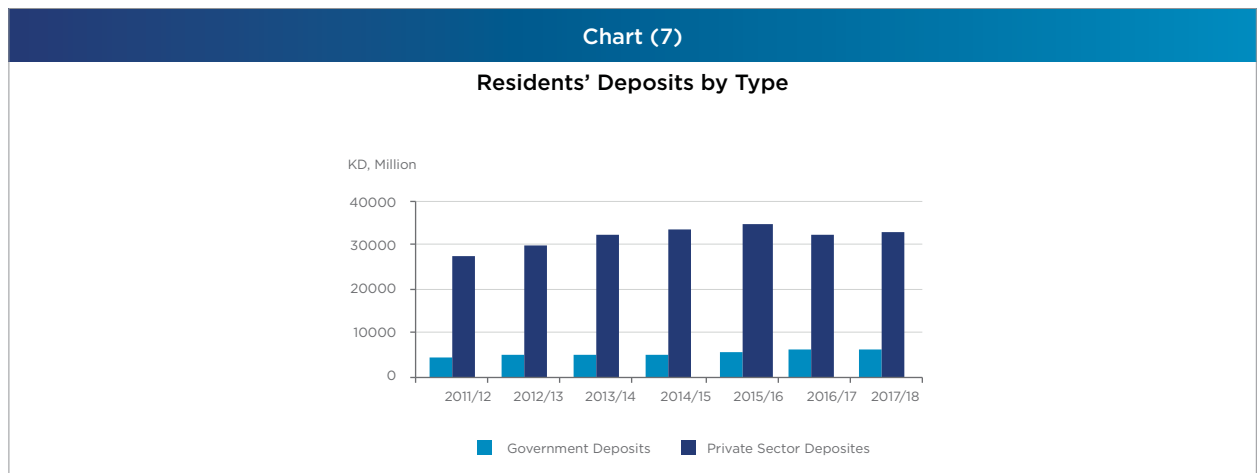
Source: Central Bank of Kuwait.

#### 4. Residents' Deposits by Type:

“ Government Deposits drop 0.5% following increases of recent years ”

Data indicate a KD 220.7 million or 0.5% rise in the total account of residents' deposits with local banks to KD 42,164.9 million at the end of FY2017/18 against KD 41,944.2 million at the end of the previous fiscal year. This rise came as a result of an increase of KD 313 million or 0.9% in private sector deposits and a decrease of KD 92.3 million or 1.3% in government deposits by end of FY2017/18. The rise in the private sector (resident) deposits with local banks is attributed to the following:

- The increase in private sector KD deposits by KD 573.1 million or 1.8%.
- The decrease in private sector deposits in foreign currency by KD 260.1 million or 9.1%.



Source: Central Bank of Kuwait.

#### 5. Monetary Base

CBK pursued managing levels of domestic liquidity during FY2017/18 in accordance with the economic, monetary, and banking conditions in the country.

CBK uses numerous monetary instruments, notably:

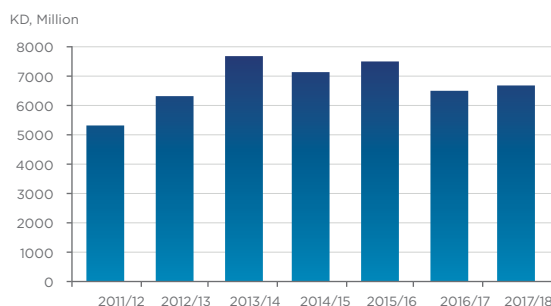
- Accepting time deposits from local banks and financial institutions.
- Issuing CBK bonds.
- Accepting sight deposits from local banks and financial institutions.

“ Increase in CBK Sight Accounts and Sight Deposits was the main source of Monetary Base growth ”

- The balance of currency in circulation increased by KD 77.9 million or 4.7% to KD 1,723.8 million at the end of FY2017/18 compared to KD 1,645.9 million at end of the previous year.
- The balances of sight accounts and deposits also increased by KD 317.3 million or 33.6% during to reach KD 1,261.5 million at the end of FY2017/18, compared to KD 944.2 million at the end of FY2016/17.

Chart (8)

Monetary Base



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, witnessed a decrease of KD 427 million or 37.6% to reach KD 710.0 million at the end of FY2017/18, compared to KD 1,137.0 million at the end of the previous fiscal year.

Consequently, the balance of the monetary base increased from KD 6,547.3 million at the end of FY2016/17 to KD 6,732.5 million at the end of FY2017/18, i.e. an increase of KD 185.2 million or 2.8%.

## 6. Bank Credit

Balances of the utilized cash portion of credit facilities extended by local banks to various domestic economic sectors during FY2017/18 increased by KD 671.5 million or 1.9% to reach KD 35,559.1 million at the end of the mentioned fiscal year compared to KD 34,887.6 million at the end of FY2016/17.

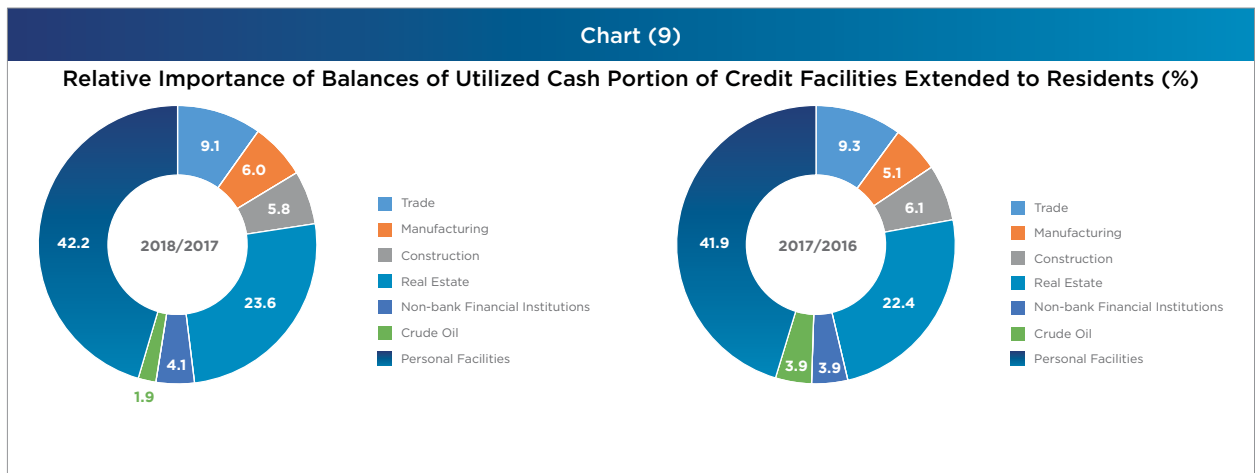
**“Personal facilities and credit extended to real estate sector led the growth in the credit facilities”**

The mentioned rise in the balances of credit facilities resulted, basically, from the increase in following categories of facilities:

- Personal Facilities (by KD 536.8 million or 3.7%)
- Companies (by KD 134.7 million or 0.7%), which in turn resulted from the rise in credit facilities extended to companies in the following sectors:
  - Real Estate (by KD 184.3 million or 2.4%).
  - Industry (by KD 99.6 million or 5.6%).
  - Trade (by KD 51.5 million or 1.6%).
  - Crude Oil and Gas (by KD 10.6 million or 0.8%).

On the other side, cash credit facilities extended by local banks to the following sectors decreased at the end of FY2017/18:

- Construction (by KD 208.2 million or 9.9%)



Source: Central Bank of Kuwait.

**Table (4)**

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

End of Period	16/2017	17/2018	Change in (2) over (1)	
	(1)	(2)	Value	( % )
<b>Total utilized cash credit facilities, of which:</b>	<b>34,887.6</b>	<b>35,559.1</b>	<b>671.5</b>	<b>1.9</b>
• Trade	3,249.8	3,301.3	51.5	1.6
• Industry	1,789.5	1,889.1	99.6	5.6
• Construction	2,112.1	1,903.9	-208.2	-9.9
• Non-bank Financial Institutions	1,354.0	1,197.4	-156.6	-11.6
• Personal Facilities	14,634.2	15,170.9	536.8	3.7
• Real-Estate	7,811.6	7,995.9	184.3	2.4
• Crude Oil and Gas	1,354.9	1,365.4	10.6	0.8

Source: Central Bank of Kuwait.

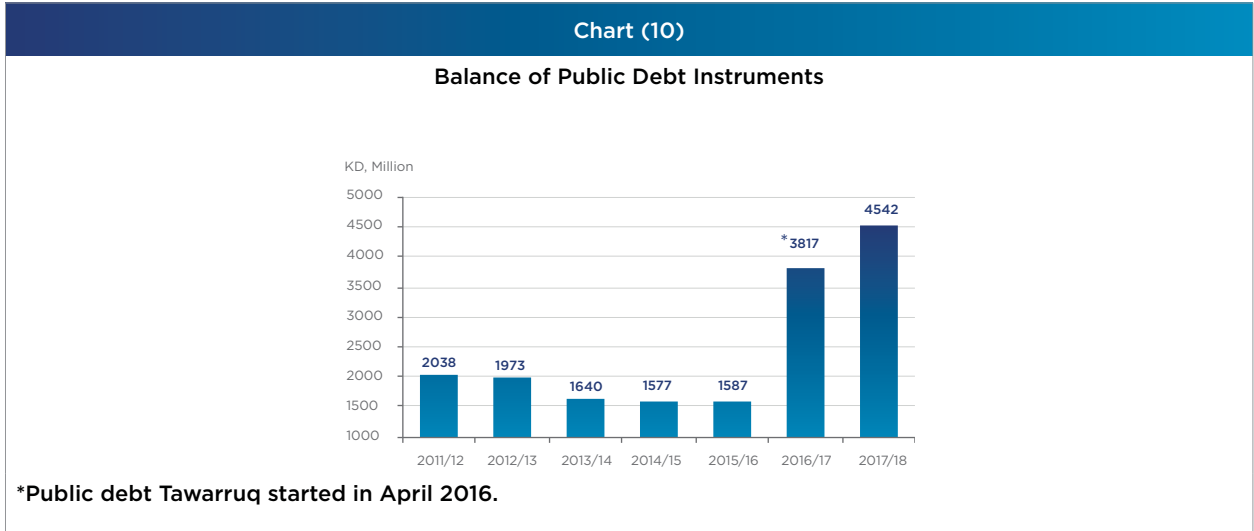
## 7. Issuance of Public Debt Instruments and CBK Bonds

### 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 the CBK to regulate the levels of domestic liquidity through the primary market for said instruments, or through open market operations in the secondary market for the instruments.

“Balances of Public Debt Instruments witnessed a modest increase compared to a significant increase in the previous fiscal year”

Within this context, the CBK introduced 23 issues of Treasury Bonds, during FY2017/18, with a total nominal value of KD 2,200.0 million, and 18 previous issues of such bonds had matured during the year at a total nominal value of KD 1,475.0 million. Accordingly, the total outstanding balance of public debt instruments (Treasury Bills, Treasury Bonds and related Tawarruq) increased to KD 4,542.3 million at the end of FY2017/18. The balance of public debt instruments held by local banks came to KD 4,542.3 million (100%) at end of year.



Source: Central Bank of Kuwait.

**B. CBK Bonds and Related Tawarruq :**

CBK introduced 38 issues of its Bonds (CBK Bonds and related Tawarruq) during FY2017/18 with a total nominal value of KD 7,938.0 million, and 38 previous such issues matured within the same fiscal year, at a total nominal value of KD 7,585.0 million.

Accordingly, the total outstanding balance of CBK Bonds and related Tawarruq increased to KD 3,028 million at the end of FY2017/18, against KD 2,813 million at the end of the previous fiscal year, i.e. an increase of KD 215.0 million or 7.6%.

## Second : Banking Developments

### Local Banks' Aggregate Balance Sheet:

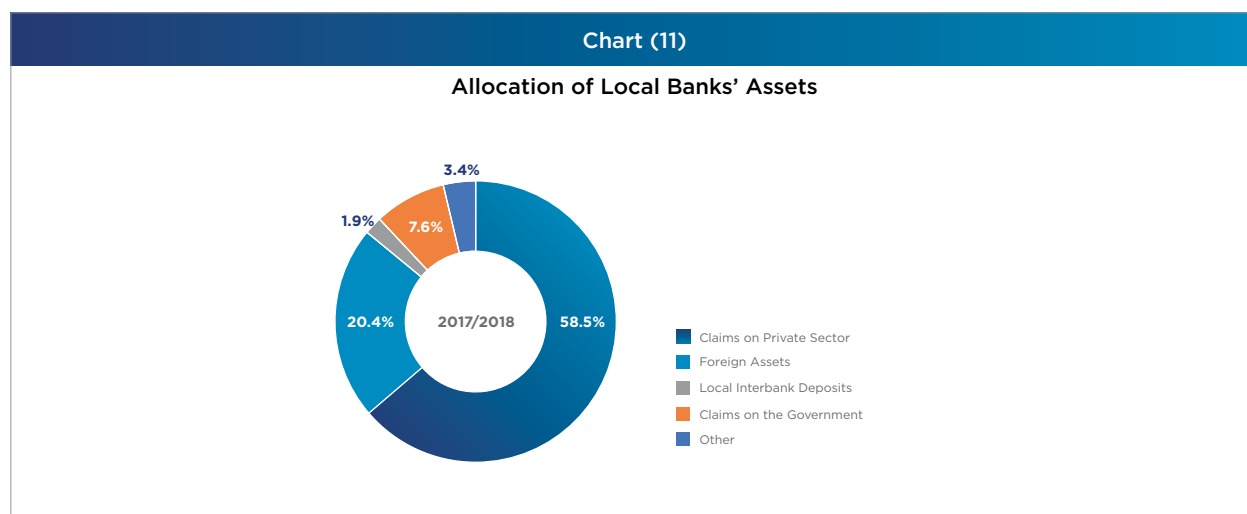
Data on the aggregate balance sheet of local banks indicate an increase to KD 63,876.2 million at the end of FY2017/18 against KD 61,957.4 million at the end of FY2016/17, i.e. a rise of KD 1,918.9 million or 3.1%. This rise was caused by various developments in both assets and liabilities components 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 647.1 million or 1.8% to KD 37,365.7 million at the end of FY2017/18 against KD 36,718.6 million at the end of FY2016/17. This increase resulted from a rise of KD 671.5 million or 1.9% in the balances of utilized cash portion of credit facilities extended by local banks to various domestic economic sectors to reach KD 35,559.1 million against KD 34,887.6 million at the end of the previous fiscal year. Another factor was a KD 24.4 million or 1.3% decrease in the balances of other local investments to reach KD 1,806.6 million by end of FY2017/18 compared to last fiscal year's final figure of KD 1,831.0 million.

- Local banks' claims on the CBK increased by KD 108.9 million or 2.2% to reach KD 5,007.8 million at the end of FY2017/18 against KD 4,898.9 million at the end of the previous fiscal year.

This increase resulted from increase in the balances of sight deposits with the CBK by KD 317.3 million or 33.6% (up from KD 944.3 million to KD 1,261.5 million) and a rise in local banks' holdings of CBK bonds and related Tawarruq by KD 217.0 million or 7.7% (up from KD 2,820.2 million to KD 3,037.2 million), coupled with a decrease in time deposits with the CBK and related Tawarruq by KD 427.0 million or 37.6% (from KD 1,137.0 million down to KD 710.0 million).



Source: Central Bank of Kuwait.

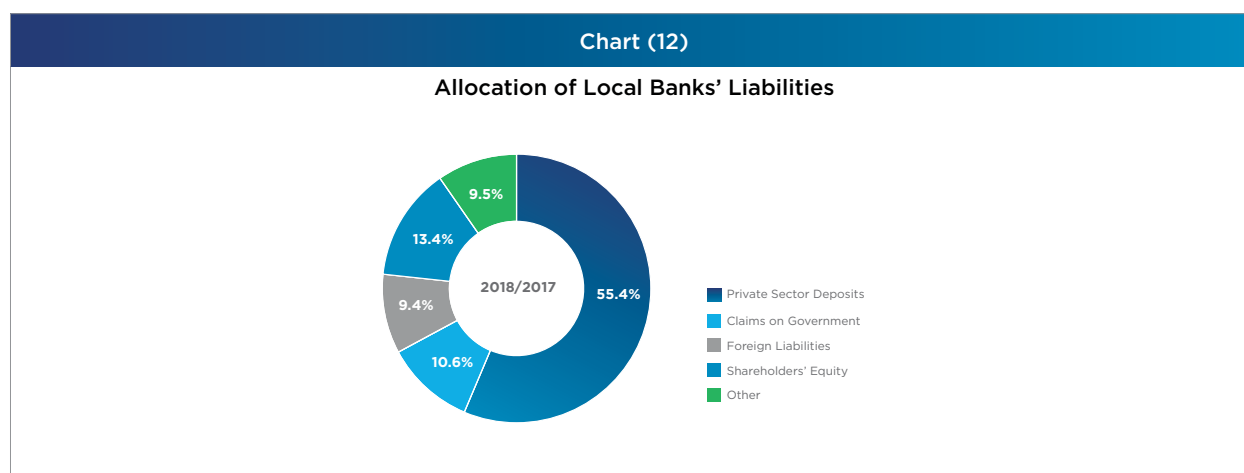
#### B. On the Liabilities Side:

- Private sector (resident) deposits with local banks increased by KD 313 million or 0.9% to KD 35,371.2 million at the end of FY2017/18 against KD 35,058.2 million at the end of the previous fiscal year. This rise resulted primarily from a growth of KD 573.1 million or 1.8% in the balances of KD deposits to reach KD 32,782.2 million at the end of FY2017/18 against KD 32,209.1 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 260.1 million or 9.1% to reach KD 2,589.0 million at the end of FY2017/18 against KD 2,849.1 million at the end of the previous fiscal year.

- Government deposits with local banks decreased by KD 92.3 million or 1.3% to KD 6,793.7 million at the end of FY2017/18 against KD 6,886.0 million at the end of FY2016/17.

- Shareholders' equity with local banks increased by KD 243 million or 2.9% to reach KD 8,530.1 million at the end of FY2017/18 against KD 8,287.1 million at the end of FY2016/17.

On the other hand, the balances of contra accounts with local banks reached KD 16,645.0 million at the end of FY2017/18 against KD 15,966.5 million at the end of FY2016/17, i.e. an increase of KD 678.5 million or 4.2%. These balances account for 26.1% of the aggregate balance sheet of local banks at the end of FY2017/18 against 25.8% at the end of FY2016/17.



Source: Central Bank of Kuwait.

**Table (5)**

**Local Banks' Aggregate Balance Sheet (KD million)**

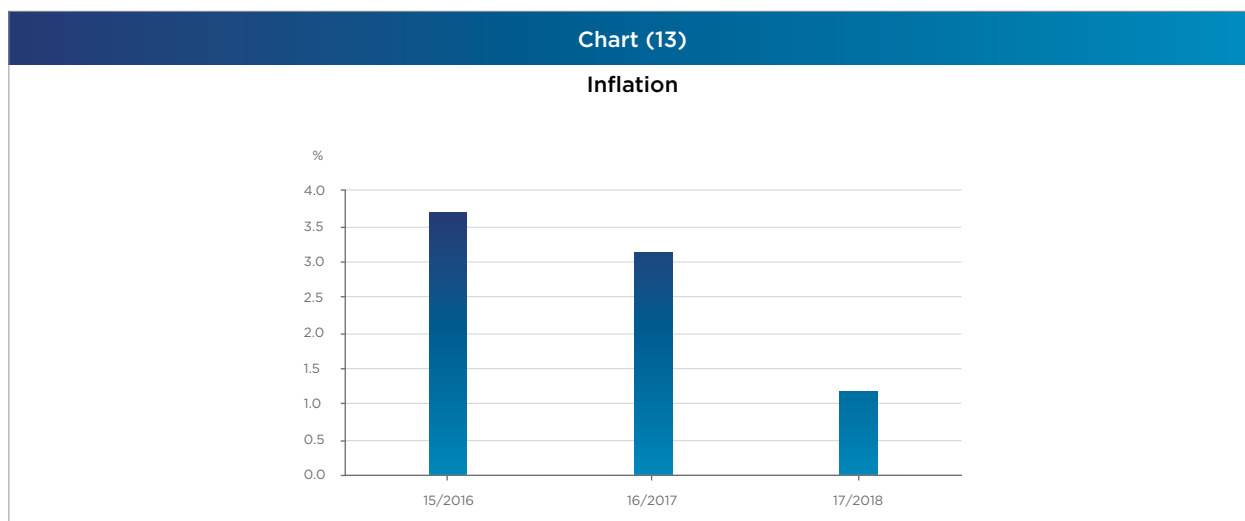
Item	Closing Balance		Change	
	16/2017	17/2018	Value	(%)
<b>Assets:</b>				
Cash	307.7	310.3	2.6	0.9
Claims on CBK	4,882.4	4,996.8	114.4	2.3
Local Interbank Deposits	1,391.3	1,188.8	-202.5	-14.6
Claims on Government	4,050.1	4,828.0	777.9	19.2
Claims on Private Sector	36,718.6	37,365.7	647.1	1.8
Foreign Assets	12,747.1	13,004.7	257.6	2.0
Other Assets	1,860.2	2,181.9	321.7	17.3
<b>Total Assets</b>	<b>61,957.4</b>	<b>63,876.2</b>	<b>1918.9</b>	<b>3.1</b>
<b>Liabilities:</b>				
Private Sector (Resident) Deposits	35,058.2	35,371.2	313.0	0.9
Government Deposits	6,886.0	6,793.7	-92.3	-1.3
Local Interbank Deposits	1,370.3	1,108.1	-262.2	-19.1

Table (5)				
Local Banks' Aggregate Balance Sheet (KD million)				
Item	Closing Balance		Change	
	16/2017	17/2018	Value	(%)
Shareholders' Equity	8,287.1	8,530.1	243.0	2.9
Foreign Liabilities	4,741.9	6,026.3	1284.4	27.1
Other Liabilities	5,613.9	6,046.9	433.0	7.7
<b>Total Liabilities</b>	<b>61,957.4</b>	<b>63,876.2</b>	<b>1918.9</b>	<b>3.1</b>
Contra Accounts:	15,966.5	16,645.0	678.5	4.2

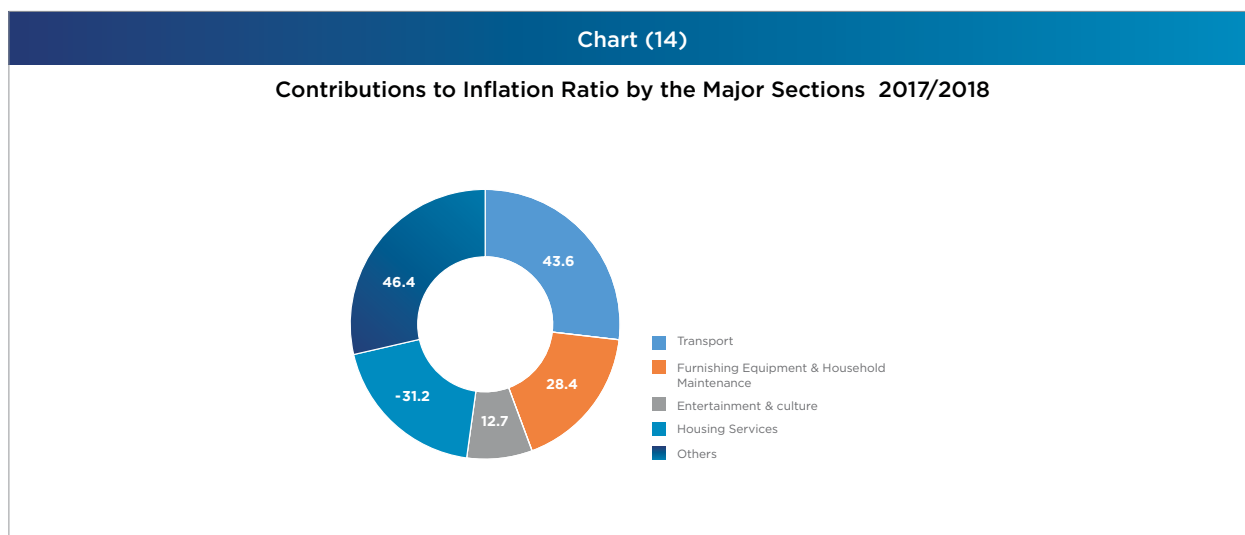
Source: Central Bank of Kuwait.

## 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 1.2% during FY2017/18 against 3.1% for FY2016/17. The main groups that most contributed to the mentioned rate are: "Transport" (relative weight of 7.5%) at a contribution of 43.6%, "Furnishing equipment and household maintenance" (relative weight of 11.4%) at a contribution of 28.4%, and "Recreation and Culture" (relative weight of 3.8%) at a contribution of 12.7%, whereas the negative contribution to the inflation rate for FY2017/18 was in "Housing Services" (relative weight of 33.2%) at a contribution of 31.2%.



Source: Central Bank of Kuwait.



Source: Central Bank of Kuwait.

## **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 FY2017/18 within the context of maintaining the integrity of the financial position of these units and solidifying Kuwait’s monetary and financial stability”

### **First : CBK key instructions, circulars and controls issued for the banking and financial units under its supervision**

- CBK has issued a circular to all the banking and financial units on 27/2/2017 regarding the data models submitted to CBK on balance of payments statistics of the State of Kuwait, the coordinated survey of foreign investments in the portfolio, the coordinated survey of direct investment, and abroad transfers form of non-Kuwaiti employees.
- CBK has issued a circular on 13/6/2017 to all local banks and finance companies concerning the decision of CBK Board of Directors to amend the rules and regulations for the expertise required in Article (68) of Law No. 32 of 1968 and its amendments. The new resolution includes the regulations controlling the delegation of the boards of directors of banks to any of its members or third parties to carry out any work or supervise any aspect of the bank’s activity, or use some authorities and specialties related to the board of directors, in light of what is required in Article (185) of the Companies’ Law No. (1) 2016 and its amendments. The new resolution also includes the terms’ amendment of the required experience for the position of Chief Executive Officer (CEO) of banks or its deputies or assistants, in respect to the years and nature of the experience required to fill these positions. In addition, some senior positions are included, in which the required experience terms are applicable to its occupants in accordance with the provisions of Article (4) of the resolution referred to.
- CBK has issued a circular on 19/7/2017 to all finance companies and investment companies authorized to extend credit facilities / financing operations concerning center of risks system and regulations issued for its implementation. It was decided that companies would be allowed to automatically inquire about their customers who have passwords in each company, in accordance with the rules in force, taking into consideration the circulars issued in this regard.
- CBK has issued a circular to all local banks on 20/7/2017 concerning posted advertisements on social media on loan rescheduling (payment operations). Local banks have been obliged to track such advertisements, which use the logo and name of the bank, and take legal action against their publishers.
- CBK has issued instructions to local banks in accordance with the letter directed to the Kuwait Banking Association on 2/8/2017 on enhancing information systems, networks and means of communication between banks and their customers to combat financial frauds facing all financial and banking sectors worldwide.
- CBK has issued instructions to local banks in accordance with the letter directed to the Kuwait Banking Association on 26/11/2017 concerning the minimum standards required to deal with the theft of ATM data and the combating of frauds using ATMs.
- CBK has issued a circular to all local banks, investment companies and finance companies on 27/11/2017 concerning the introduction of some amendments related to the mechanism dealing with clients’ complaints, and shortened the period specified to respond to these complaints.

- CBK has issued a circular to all exchange companies on 13/12/2017 regarding the continuation of submitting the periodic data and statistics of exchange companies by downloading it in the modified system in conformity with Oracle in a testing environment, as of December 2017. The complete set of explanatory notes and definitions of the new system are attached.
- CBK has issued a circular to all local banks, investment companies and financing companies on 14/2/2018 regarding the examination of the loans / consumer and installment financing portfolios. The banks and companies are obliged to change the auditing office responsible for conducting the examination every two years, starting with the examinations that will take place as of 1/4/2018.
- CBK has issued a circular to all the Islamic banks on 7/3/2018 regarding the amendment on the forms used for shares owned by the Bank to pay off/ fulfill its debts towards others, in order to follow-up with the Islamic banks' compliance with the provisions of Articles (66/c), (67/ b), and (99) of Law No. 32 of 1968 Concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business and its amendments.
- CBK has issued a circular to all local banks, finance companies and investment companies on 22/3/2018 on the decision of CBK's Board of Directors to raise the discount rate and re-discounting of commercial paper with CBK by 25 basis points, to 3% instead of 2.75%, as of 22/3/2018.

## Second : Other Activities

- Developing the data provided to the IMF on financial soundness indicators in line with the Fund's new requirements.
- Expanding the content of CBK's quarterly bulletin by including the financial soundness indicators of Islamic and conventional banks.
- Organizing a workshop in cooperation with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in May 2017, within a framework to develop the Islamic banking and financial business, improving the capacities and professional and cognitive aspects of this work.
- Organizing a workshop for four consecutive years for the officials and employees of all local banks and exchange companies operating in the State of Kuwait during the period of 21-23/11/2017 under the title "Anti-Money Laundering and Terrorism Financing Requirements".
- Completing the application and activation of 3D technology to implement the electronic payment transaction, in order to increase the efficiency of information security and protect the bank accounts associated with the use of bankcards.
- The participation of CBK's staff members in several television and radio programs such as Kuwait TV, Al-Majliss channel, and Marina FM. CBK staff members have also participated in the Family Budget Forum, and the Banking and Financial Awareness Forum in an attempt to increase the levels of awareness and knowledge for those dealing with the banking sector.
- Organizing a workshop in January 2018 regarding the implementation of International Accounting Standard 9 (IFRS 9) in collaboration with Ernst & Young (EY).
- A Memorandum of Understanding was signed on 17/01/2018 between CBK and the Capital Market Authority (CMA) to coordinate and cooperate among them on defining competencies of regulating and supervising certain aspects of CBK-controlled units' activities, in addition to the financial instruments issued, handled and subject to the supervision of CMA.

## Third: Key Banking Operations

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



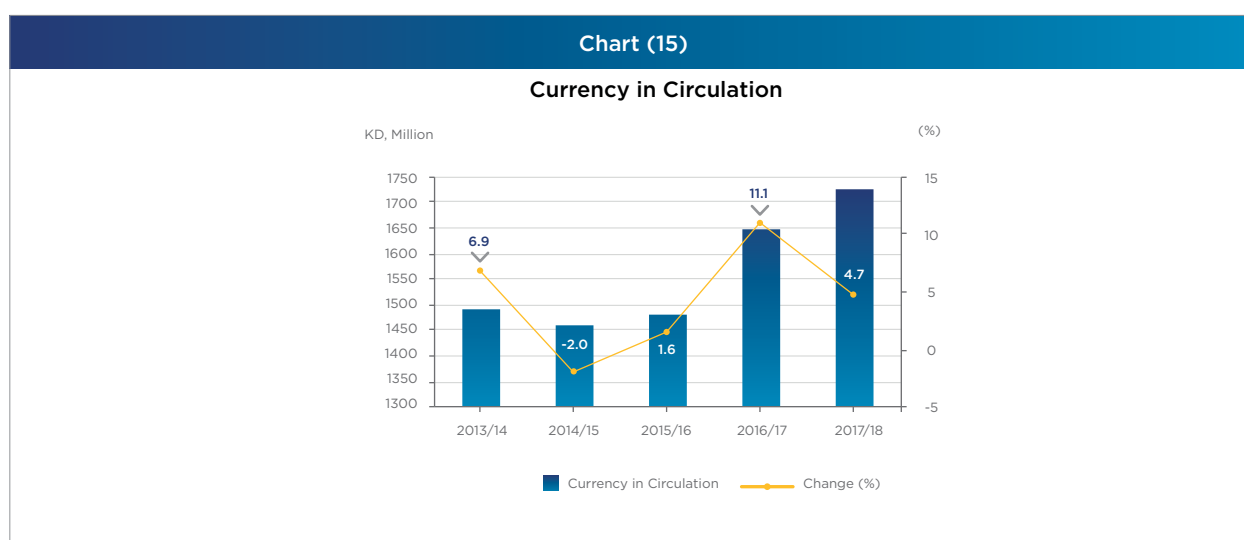
## First : Currency in Circulation

### • Balance of Currency in Circulation

Available data reveals an increase in the balance of currency in circulation of KD 1,723.8 million by the end of FY2017/18 against KD 1,645.9 million at the end of the previous fiscal year, i.e. an increase of 77.8 million or 4.7%. Balance during FY2017/18 varied between:

- KD 1,902.0 million, which is the highest level, by end of June 2017.
- KD 1,618.1 million, which is the lowest level, by end of September 2017.

“ Value of currency in circulation increased by 4.7% at the end of FY2017/18 ”



Source: Central Bank of Kuwait.

### • The Quality of Banknotes in Circulation

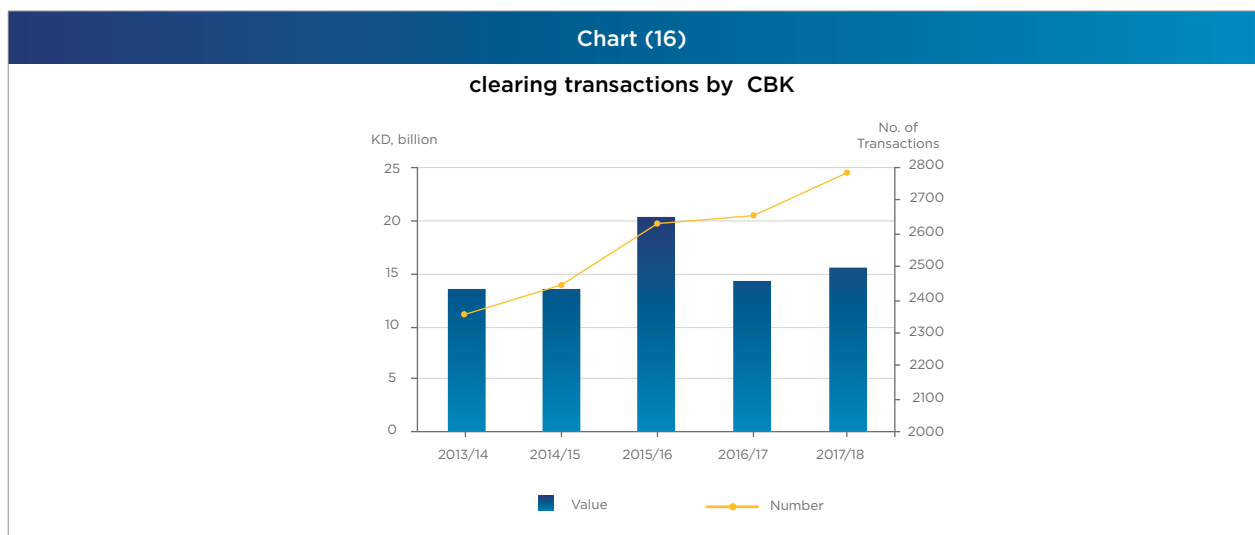
CBK continued its efforts towards ensuring the high quality of banknotes in circulation by withdrawing and destroying banknotes that are no longer fit for circulation in accordance with CBK minimum quality requirements, and fighting counterfeit and forgery of banknotes in collaboration with other government bodies.

## Second : Local Interbank Clearing and Settlement Operations

### • Transactions processed by CBK Clearing Room

“ The total value of clearing room’s transactions increased to reach KD 15.50 billion during FY2017/18 ”

As for the transactions made by CBK clearing room, the total value of these transactions during FY2017/18 increased to KD 15.50 billion for 2,785.4 thousand transactions (cheques) i.e. an average value of KD 5,566.6 per transaction, against KD 14.42 billion for 2,652.0 thousand transactions (cheques) i.e. an average value of KD 5,437.7 per transaction during FY2016/17.

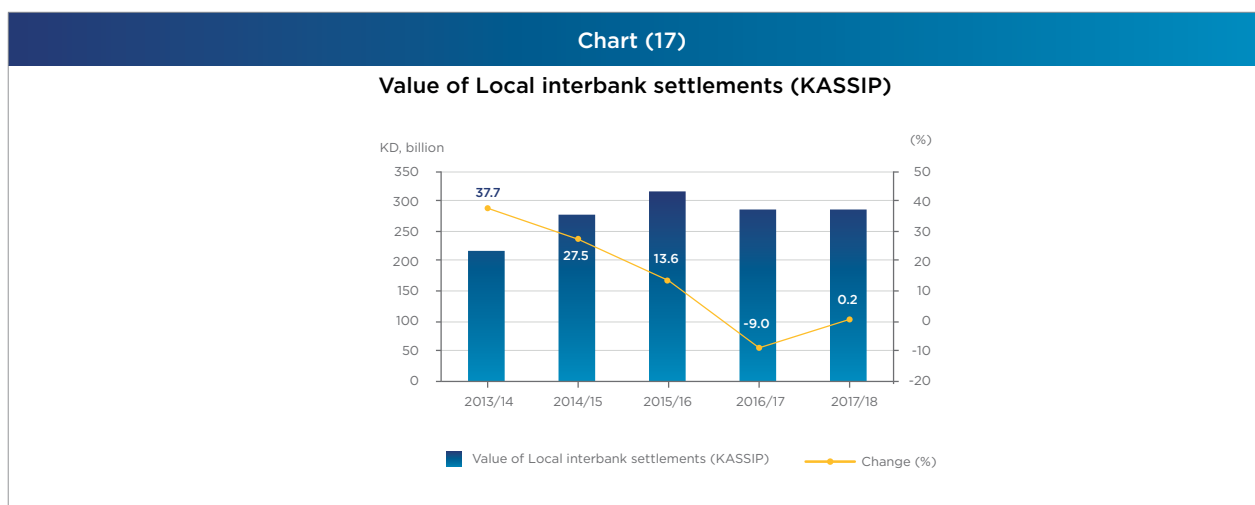


Source: Central Bank of Kuwait.

• **Interbank Settlements**

**“The Interbank Settlements increased by 572 million or 0.2%”**

Available data indicate that interbank settlements carried out through CBK using Kuwait Automated Settlement System for Inter-participant Payments (KASSIP) amounted to KD 288.050 billion during FY2017/18 against KD 287.478 billion during the previous fiscal year, i.e. a rise of KD 572 million or 0.2%.



Source: Central Bank of Kuwait.

**Third : Bank Transfers and Transactions**

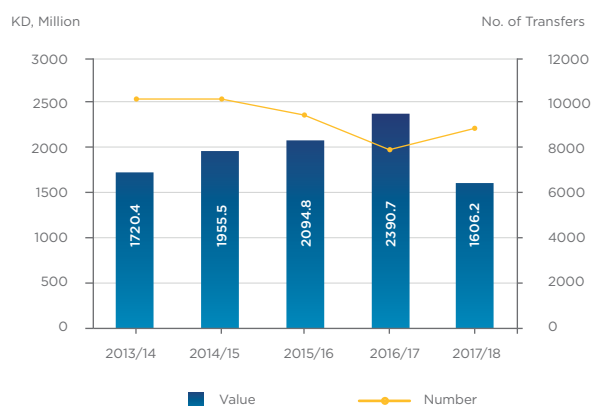
• **Local Bank Transfers**

**“The value of local bank transfers declined by 32.8% during FY2017/18”**

CBK executed 8,895 bank transfers in favor of ministries and different government institutions totaling KD 1,606.2 million during FY2017/18 against 7,859 bank transfers totaling KD 2,390.7 million during FY2016/17.

Chart (18)

## Bank Transfers Processed for the state ministries and government institutions



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 FY2017/18 are tabulated below:

Table (6)

## External Bank Transactions carried out for State Ministries and Government Entities

Item	No.	Value (KD)
<b>A. Documentary Credits:</b>		
<b>1) Opened</b>		
- Local	3	-
- Foreign	17	-
<b>Total</b>	<b>20</b>	<b>19,129,273,492</b>
<b>2) Paid</b>		
- Local	3	-
- Foreign	101	-
<b>Total</b>	<b>104</b>	<b>248,892,285,735</b>
<b>3) Amended</b>		
- Local	1	-
- Foreign		-
<b>Total</b>	<b>1</b>	<b>32,697,930</b>
<b>B. Collection Transactions:</b>		
<b>Bills for Collection</b>		
a. Incoming	-	-
b. Paid-up	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>C. Drafts for Collection</b>	<b>5</b>	<b>105,147</b>

Source: Central Bank of Kuwait.



## Fourth: CBK Workforce

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





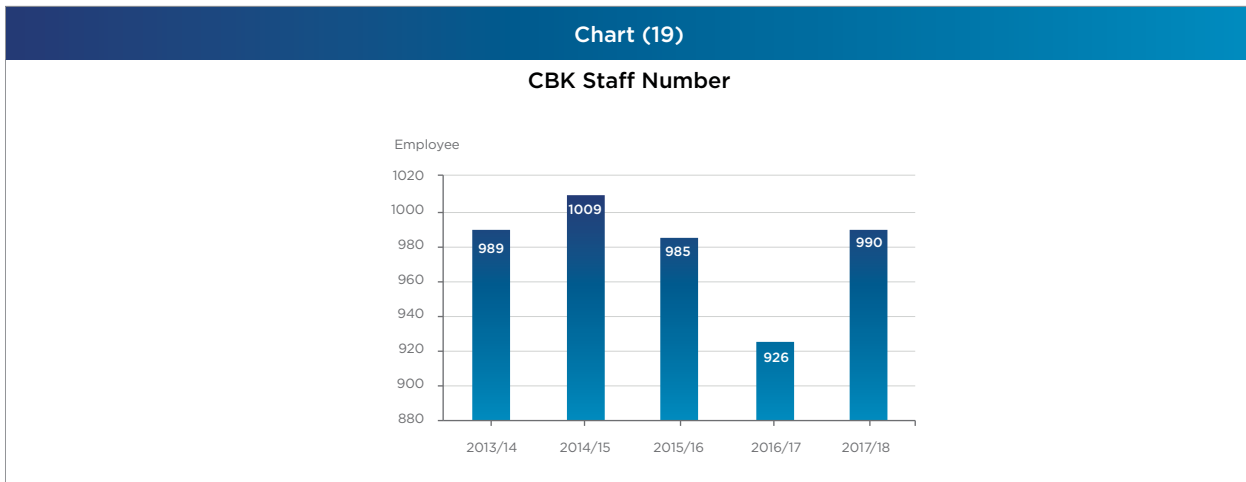
The following shows CBK staff statistics development at the end of FY2017/18:

**First : CBK Staff Number**

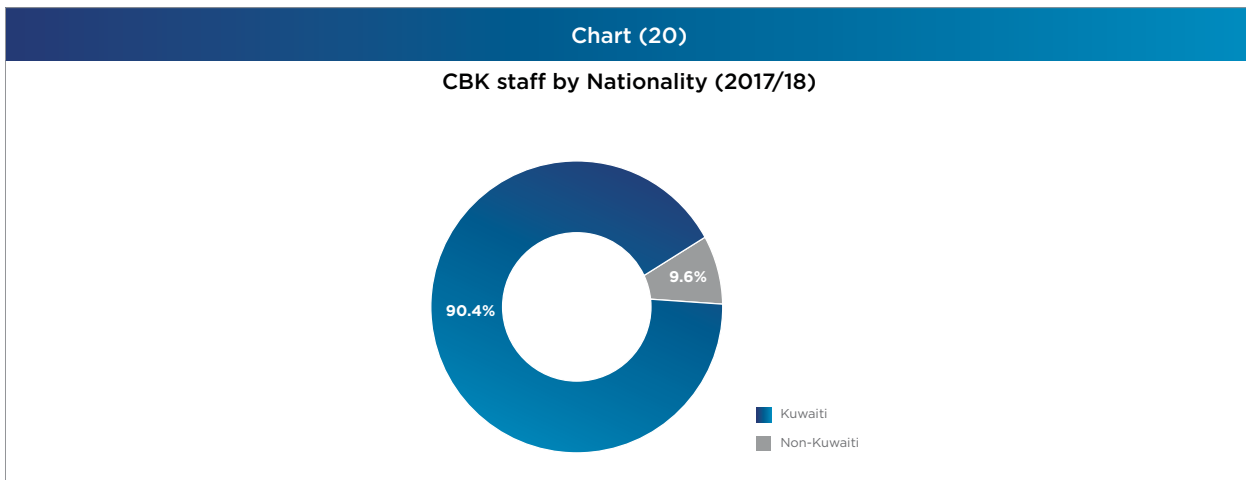
- **Staff Number in CBK**

“CBK total staff numbers increased by 6.9% at the end of FY2017/18”

CBK total staff numbers reached 990 at the end of FY2017/18 against 926 at the end of FY2016/17. The number of Kuwaiti staff reached 895 (90.4% of the total) at the end of FY2017/18 against 814 (88% of the total) at the end of the previous fiscal year.



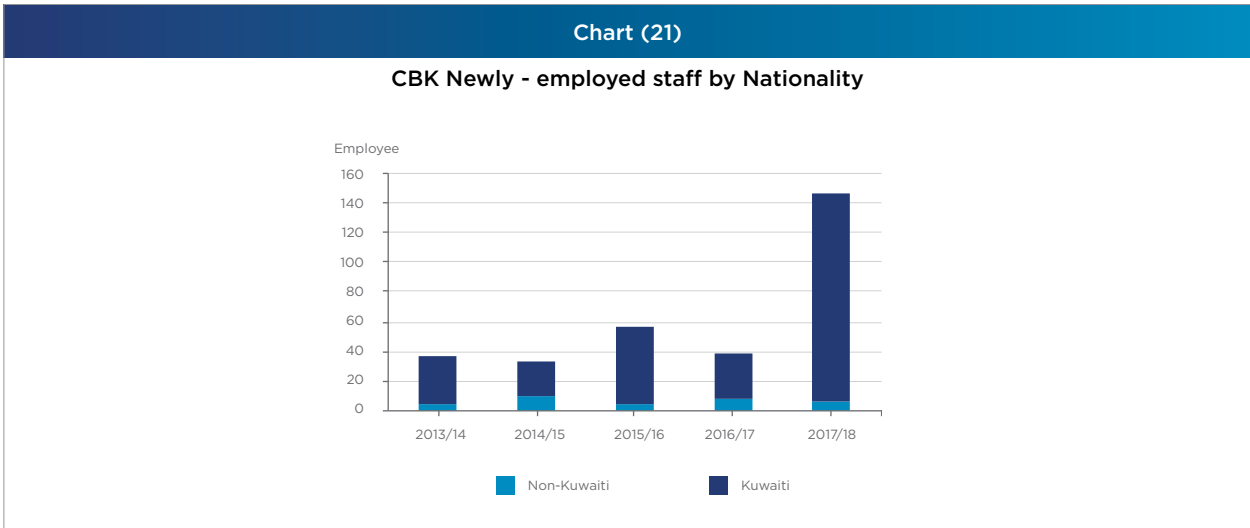
Source: Central Bank of Kuwait.



Source: Central Bank of Kuwait.

- **CBK New Staff**

CBK appointed 147 new staff during FY2017/18 of whom 141 (98% of total recruits) are Kuwaitis against 39 new staff appointed during FY2016/17 of whom 32 were Kuwaitis (82% of total recruits).



Source: Central Bank of Kuwait.

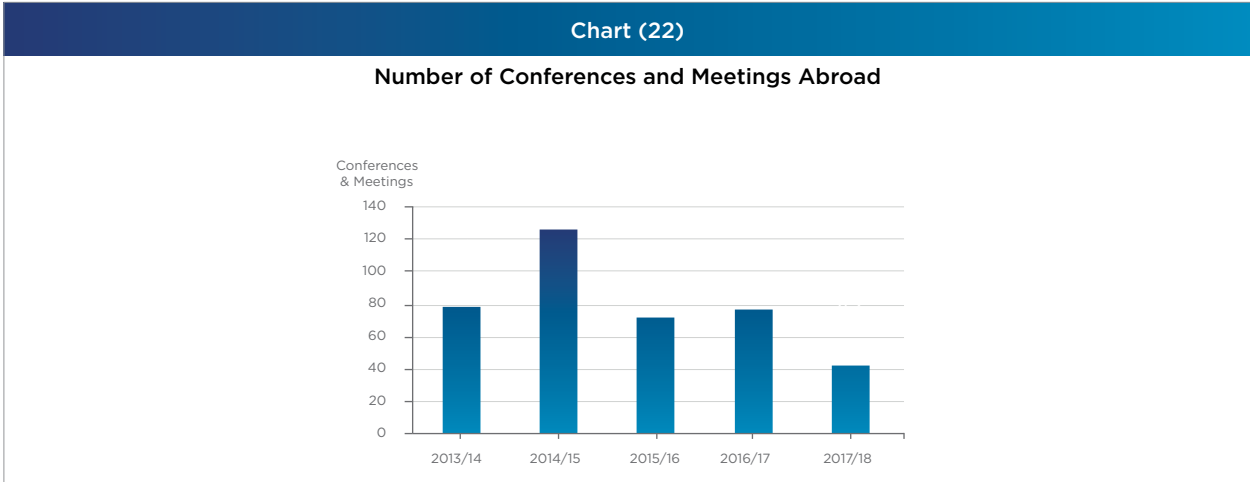
**• Employees' End of Service**

FY2017/18 witnessed end of service of 83 employees for the following reasons: Resignation (24 employees), retirement (38 employees), end of service (4 employees), dismissal (16 employees) and death (one employee).

**Second : Official Missions**

**• Conferences and Meetings Abroad**

A number of 72 staff were delegated to attend 42 conferences and meetings abroad during FY2017/18 (a decrease of 52%) against 150 staff who attended 76 conferences and meetings abroad during FY2016/17.



Source: Central Bank of Kuwait.

**Third : Training Courses and Programs**

**• Training Courses**

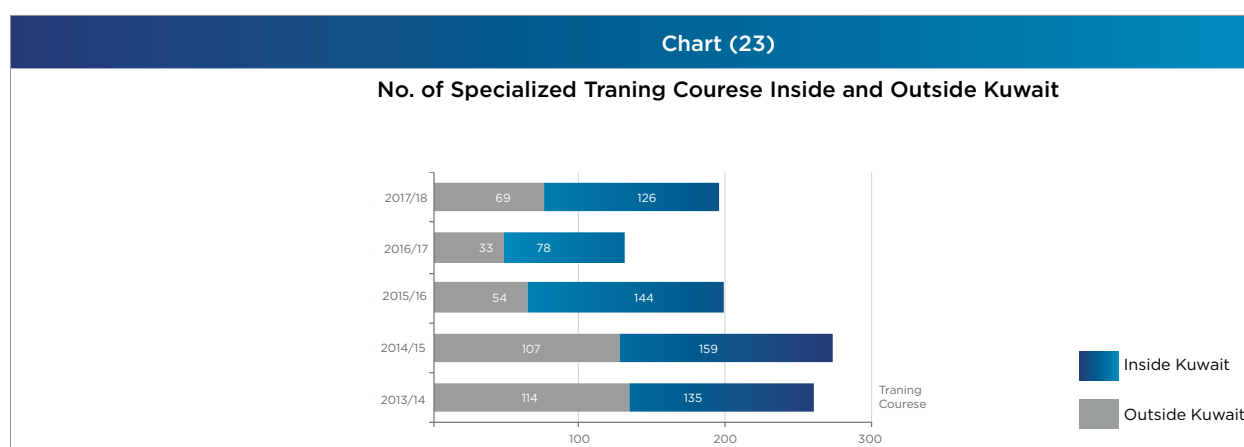
In fulfillment of staff training needs and work requirements, and in coordination with specialized training bodies, CBK had organized different programs or invited competent lecturers from within CBK, and delegated a number of CBK's staff to attend specialized programs, courses, seminars and workshops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

## A. Inside Kuwait

A total of 446 staff were delegated during FY2017/18 (an increase of 135% over FY2016/17) to attend 126 courses in cooperation with local bodies including the Institute of Banking Studies, Arab Planning Institute, International Monetary Fund’s Middle East Center for Economics and Finance, Kuwait Institute for Judicial & Legal Studies, State Audit Bureau of Kuwait, Ministry of Finance, General Secretariat of the Supreme Council for Planning and Development, and a number of local banks and financial institutions, specialized private local training bodies, audit bureaus, and Civil Service Commission. On the other hand, 190 staff were delegated to attend 78 training program inside the State of Kuwait during the previous fiscal year.

## B. Outside Kuwait

A total of 102 staff were delegated during FY2017/18 (a decrease of 79% over FY2016/17) to attend 69 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 Federal Reserve System, State Workers’ Insurance Fund (SWIF), Istanbul Central Bank Institute, and Jirizense Center. On the other hand, 57 staff were delegated to attend 33 training program outside the State of Kuwait during the previous fiscal year.



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 65 fresh graduate interns and enrolled them in the internship program prepared for them in the related offices/departments. Moreover, 7 interns have been tenured during FY2017/18, against 8 during FY2016/17.

### • Training University and Institute Students

During FY2017/18 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 8 during FY2017/18, compared with 16 during FY2016/17.

### • 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 2018. Under this program, 3 university graduate interns were selected for CBK to participate in this training.

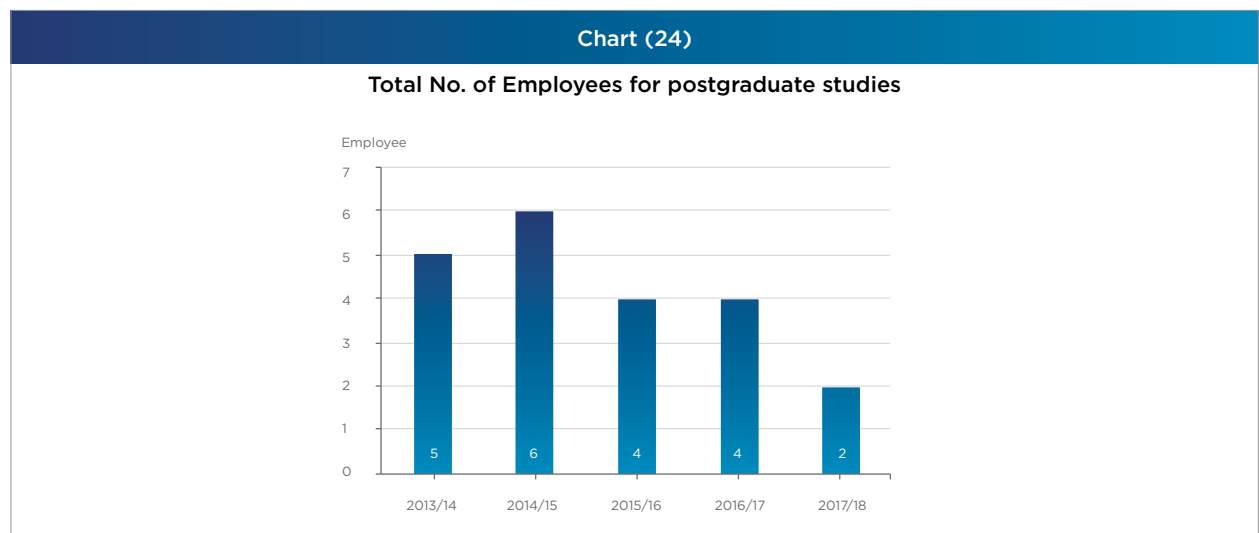
#### Fourth : Professional Certificates and Scholarships

- **Professional Certificate Program**

Seven employees were delegated to attend the professional certificate program during FY2017/18, compared with 4 during FY2016/17.

- **Graduate Studies**

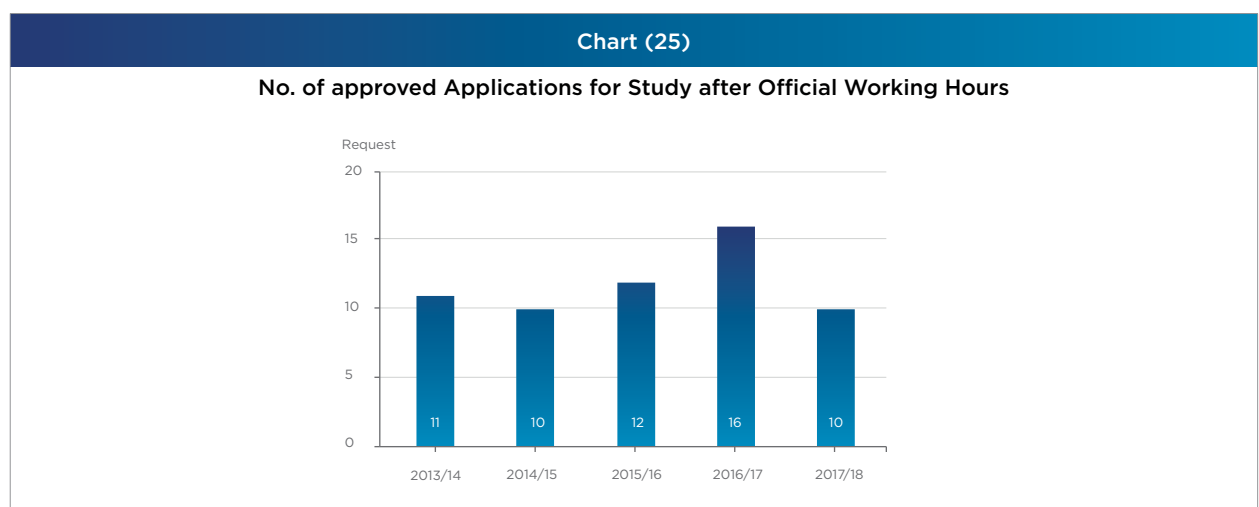
During FY2017/18, CBK has agreed to delegate 2 employees meeting the requirements to complete their postgraduate studies abroad, compared to 4 employees during FY2016/17.



Source: Central Bank of Kuwait.

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

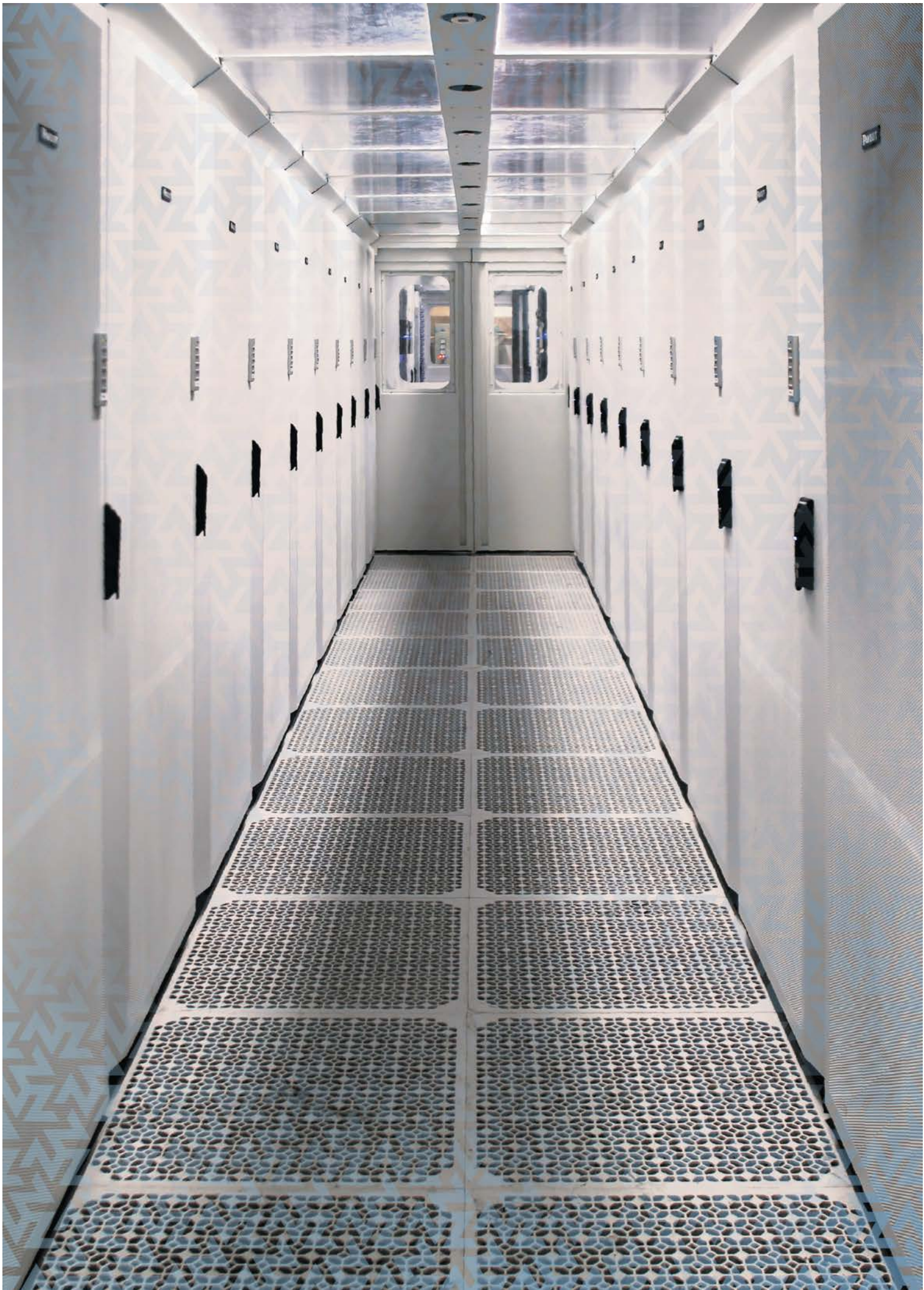
CBK has approved 10 study completion requests during FY2017/18 compared with 16 requests for study completion after the official working hours during FY2016/17. The Human Resources Department made the necessary procedures and organized the process of study completion after the official working hours in accordance with CBK's terms and controls thereon.



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



## First : CBK Efforts Towards Developing and Upgrading the Infrastructure of Information Technology

“CBK continued its efforts during FY2017/18 towards developing and upgrading the infrastructure of information technology in line with latest IT breakthroughs”

### Strategic Planning for Information Technology

#### • CBK Project of Core Banking Operations Systems

Modern and advanced systems have been implemented to facilitate and accelerate the completion of the business to the benefit of CBK in particular, and the operations of government and banking bodies associated with these systems in general.

The project included the implementation of a new and modern Accounts Tree for CBK, in addition to replacing a number of old systems with other new systems with current accounts, budget, cash, treasury, procurement and inventory, thus ensuring integration of systems. These systems were operated on 18 June 2017. Through the application of this project, a number of manual procedures have been replaced with automated ones, which facilitated and accelerated the completion of the transactions and the related procedures, especially with the use of the automated interconnection systems in various departments. In addition, the speed in extracting reports and data for the relevant departments facilitated the work of the departments that primarily rely on these data for analysis and study. Moreover, edits and modifications continue to be added to some systems and reports to improve their efficiency and facilitate the work by users of systems in different departments in CBK. The implementation of these systems is also an overture to the application of modern and advanced systems that serve CBK and other banking entities in the performance of their business.

#### • Replacing “CBK’s signature matching system and the cheque clearing system”

The old signature matching system has been replaced by a new, modern system that is linked to the automated cheque clearing system. The new system will automatically implement the signature matching procedures, therefore accelerating subsequent steps that are related to the cheque clearing system and complete the relevant procedures.

#### • Supervise “the supplying and implementing the government payments system” project

The project aims at implementing the operations of government bodies electronically and directly through the relevant entity, which will significantly reduce the paperwork and speed up completion of these operations efficiently, due to having a number of characteristics that help the beneficiaries to verify the validation of the data. The project was executed during FY2017/18 and is still in progress.

## Information Systems and Operations

### • Design and execute the computer operations room in the emergency headquarters

The equipment and devices were transferred from the old emergency headquarters to its new site, which is designed with latest technology. The new design offers the following features:

- Consistent with the Global Standard for Data Centers (2-942/942-TIA) issued by the Telecommunication Industry Association (TIA) which is accredited by American National Standards Institute.
- Ability to manage and maintain the equipment and devices without the need to interrupt the services through the multiple distribution of electricity cooling and networks.
- Provide energy and increase cooling efficiency in line with Green Business Practices.
- Flexibility to accommodate future expansion of data center size.

The first emergency test was conducted for critical bank systems from the new emergency site. The first phase is also equipped to host 50 staff of the Bank's departments and offices and to perform the first emergency test in the new environment of the included departments.

### • Develop and implement the HR-Self-Service system

The HR-Self-Service system for CBK staff has been implemented through which leaves, permissions, and other HR forms can be requested electronically. The system follows the HR rules regarding the approvals of these applications, which are subject to the rules and regulations in this regard. Consequently, paperwork and mail for these procedures had been significantly reduced. In addition, this system allows electronic tracking of the applications and raises the level of work efficiency.

### • Elevate the level of protection and security controls on CBK network by the following:

- Implement the network access control system on CBK's wired and wireless Local Area Network (LAN).

The project aims at implementing a system to assess devices and apply necessary electronic security policies before permitting network connection and access to LAN. This system has improved CBK's network security and shielded it against security threats through ensuring the sound application of the necessary security controls on beneficiaries' devices before accessing the network, according to the approved information security policies.

### • Implement the network vulnerability and weaknesses detection service on the CBK's Microsoft.

The project aims at evaluating and analyzing CBK's Microsoft to detect any threat or malicious activities proactively, in collaboration with Microsoft Cyber Security Specialists. The evaluation was made according to the standards followed in this regard and a detailed report was provided. The report showed no gaps or vulnerabilities on the CBK's Microsoft or beneficiaries' devices which may be used for security breaches. The report contains the following positive results:

- Microsoft praised the assigned CBK staff for their management of Microsoft systems and keeping them abreast of the latest developments to improve the work environment.

- Microsoft praised the CBK efforts for following and applying the latest updates and security controls issued by Microsoft in order to maintain a secure environment for the Bank.

- **Implement the Forecasting Analysis and Modeling Environment (FAME) System**

The system aims to develop and save the time series database of the Economic Research Department, and extract statistical reports using modern and advanced systems in this field. The system also allows the beneficiary to conduct statistical operations and analysis of the time series, as well as design and extract the desired reports easily. The project included several stages: transferring historical data, time series, and equations from the old system to the new one. It also includes linking the system with the Core Banking system creating equations and designing reports. This project contributed to the improvement of the efficiency of work and statistical reports of time series.

- **Implement the modified “Islamic Bank System”**

The project aims to replace the old Islamic Bank System of the Off-site Supervision Department with a new system, in addition to applying the international accounting standards while preparing the required reports. This project facilitated the processes of data collection and reports extraction and helped the Department to achieve their tasks efficiently.

- **Apply the Contract and Invoices System (CIS)**

The system assists specialists in the Administration Services Department - Purchasing Section to automatically enter, register and track contracts and orders of supply, thus enhancing the efficiency of tracking contracts.

## **Information Security**

- **Protect CBK reputation:**

CBK has completed the implementation process of its Reputation Protection Service project which aims to protect the Bank's cyber reputation and monitor and control all threats affecting its reputation and address them immediately.

- **Review and update the documents of the Information Security Management System (ISMS):**

The ISMS documents have been revised and updated to achieve compatibility with the latest version of the international standard ISO27001:2013 for information security in preparation for obtaining the accreditation certificate for the mentioned international standard.

- **Protection of CBK's systems via the Internet, internal and external networks, and risk assessment for information systems management**

Intrusion tests for CBK Internet-facing systems and CBK's internal and external networks are completed. These tests aim at detecting the gaps and assessing their security level, as well as measuring the security risk for information systems management to ensure its safety and follow the best and the latest global practices in the field of information security.

- **Organizing a training program in the field of information security to qualify national cadres in the banking sector.**

An intensive training program has been organized to train employees in the field of information security in

the banking sector with one of the specialized companies (PGI) in coordination with the Institute of Banking Studies (IBS). This program would improve the trainees' technical and managerial abilities to meet the increasing and accelerating security challenges facing the banking sector in the State of Kuwait. The program began to receive the first batch of trainees in January 2018.

## **Second : CBK Efforts Towards Enhancing its Communication with the Components of the Economic and Financial Society**

During FY2017/18, 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 and accomplishments. These efforts are addressed as follows:

### **• Communication, publishing and promotion**

In an attempt to highlight the Bank's prestige and keep up with the progressive developments witnessed by media industry, CBK has adopted a balanced media policy aimed at demonstrating CBK achievements and its vital role, which is derived from its objectives, aims and active contributions to the Bank's vision. These attempts aim at maintaining the financial and monetary stability, as well as practicing the supervisory role on the monetary policies and banking system of the State of Kuwait through the following:

- Publishing 39 press material including press statements, press releases and news on local newspapers, Kuwait News Agency (KUNA) and other news agencies, to keep up with the developments witnessed in CBK business.
- Posting 556 posts on CBK social media accounts and channels, such as Twitter, Instagram and YouTube.
- Continuously developing CBK's accounts on the social media platforms, and increasing the numbers of followers in order to establish a broad base of followers on CBK's social media accounts.
- Monitoring, reviewing and analyzing samples of the announcements posted in the newspapers and social media by the bodies subject to CBK's supervision to ascertain the extent of their compliance with the issued instructions.
- Preparing and disseminating infographics to inform the community, and those interested, of the developments in a detailed and simplified manner.

### **• Growth and development of institutional relations**

During the previous year, CBK has strengthened its relations with the relevant entities, and cooperated with them to reinforce the Bank's relations with significant institutions such as:

#### **• The Institute of Banking Studies (IBS)**

CBK has collaborated with the IBS in developing the media strategy through the various media platforms of the programs initiated by CBK through the IBS. These programs deal with the social responsibility of the banking sector in areas related to community service, including qualifying national cadres and competencies who are able to support the development process in the State of Kuwait, as follows:

- Economic Researcher Award.
- Qualifying program for Kuwaiti graduates to work in the banking sector.
- Cyber Security Leader Program.
- Kuwait scholarship program.

## • Kuwait Banking Association (KBA)

CBK and KBA have collaborated in the study of the Banking Awareness Strategy Project, which is an instructive and comprehensive national awareness campaign that includes CBK's instructions regarding the Customer Protection Guide and the banking services extended by Kuwaiti banks for people with disabilities. The campaign is being developed for launching in 2018.

## • Kuwaiti Banks and Finance Companies

During 2017, CBK has collaborated with Kuwaiti banks in enhancing the efforts to sensitize their customers. The cooperation came as follows:

- Organizing and following up the joint campaign with the banks on the mechanism for submitting complaints to entities subject to the supervision of CBK through the dissemination of informative Infographic via banks' media (publications, social media, and the bank's website).
- Announcement of commemorative coins issued by CBK.
- Awareness about security marks of the national currency.

## • Ministry of Information

There is a continuous collaboration between CBK and the Ministry of Information due to providing the Ministry with CBK's news to be broadcast through the Ministry's various channels, as well as preparing informative and instructive reports for citizens, in addition to facilitating the task of broadcasting the inauguration ceremony for the new CBK building.

## • Kuwait News Agency (KUNA)

Cooperation with KUNA in covering and publishing CBK's events, its conferences and activities.

## • Participation in National, Gulf, and International Occasions

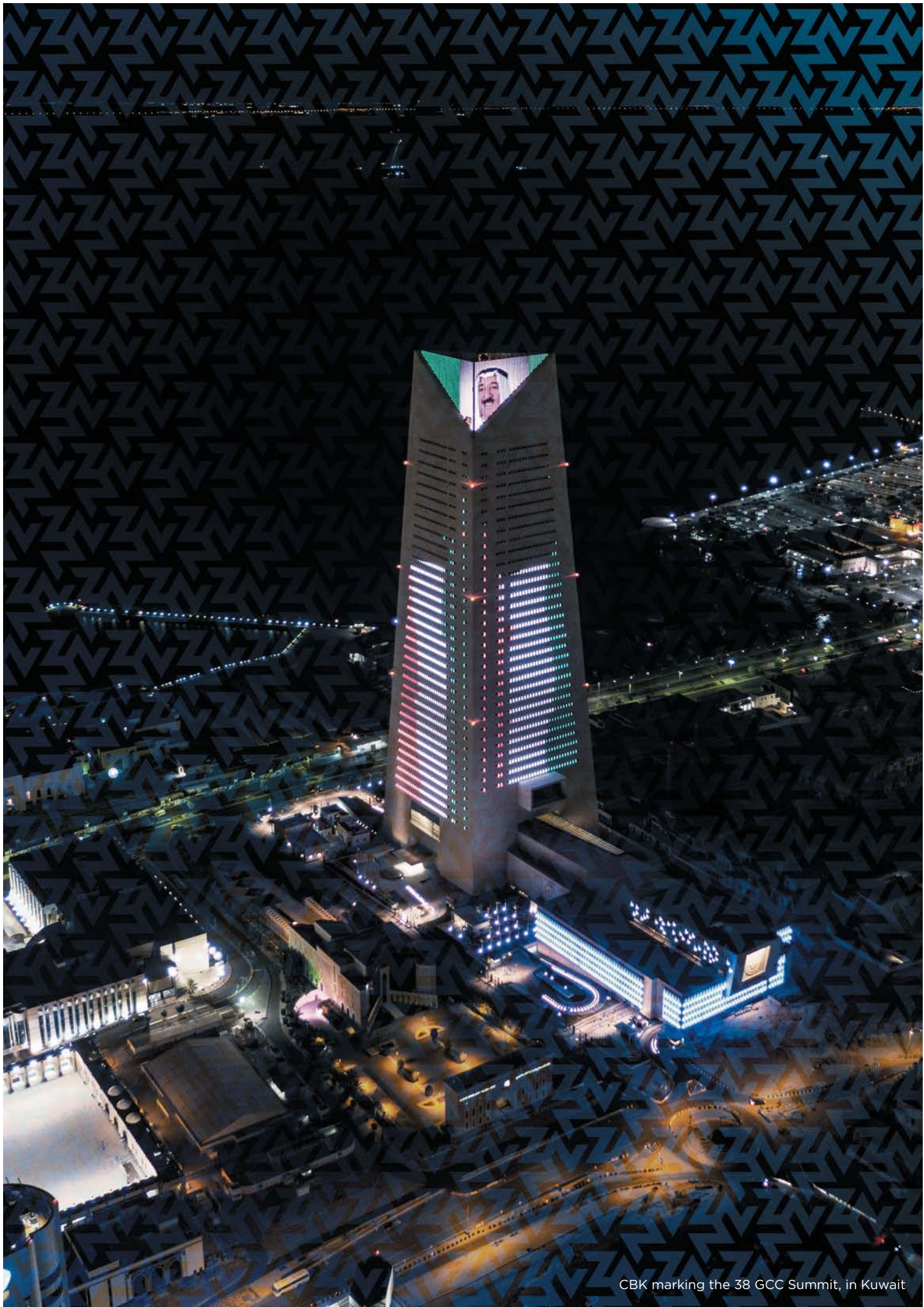
CBK has participated, and adorned its building external lightings, on several occasions, such as Kuwait National Day, Kuwait's hosting of the 38 Gulf Summit, hosting the 23 Gulf Football Championship, as well as the national holidays of the GCC countries. An article/report was prepared on these occasion's and posted on social media.

## • Consolidation of Public and Social 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, CBK 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:

### A. CBK Organized the Following Meetings and Workshops:

- Development of Islamic Banking and Finance Workshop.
- Anti-Money Laundering and Terrorism Financing Requirements Workshop for banks and exchange companies.
- The Gulf Monetary Council in cooperation with Deutsche Bank AG.



CBK marking the 38 GCC Summit, in Kuwait

- The 69th Meeting of the Committee of Governors of Monetary Agencies and Central Banks in the Cooperation Council for the Arab States of the Gulf "GCC", and the 47th Meeting of the Board of Directors of the Gulf Monetary Council.

## **B. CBK's Arrangement of the Opening Ceremony of the New Headquarters**

CBK has organized an inaugural ceremony marking the opening of its new headquarters. This significant event was graced by the attendance of His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince and respected statesmen. The occasion is a milestone among the Bank's achievements, appropriately marked in a way that fits CBK's history and name.

## **C. Completion of Procedures Related to CBK's Employees, including:**

- Arrange travel bookings for CBK employees enrolled in training courses or on work assignments and for those whose employment with CBK is terminated.
- Follow-up on completion of procedures for termination of employment for those whose employment with CBK is terminated

## **D. Organizing Social Programs and Services Aimed at the Community Within the Framework of Social Responsibility, including :**

- Providing new banknotes in all denominations to customers wishing to obtain them for use as Eid gifts, "Eidiyyah", at main malls across the country, in collaboration with K.net and Kuwait Banking Association.
- Organizing the "Because We Care" campaign to distribute winter clothing to attendants, cleaning staff, and security staff who serve at CBK.

## **E. CBK Hosting Field Visits/Trips to its Headquarters for Several Academic and Official Institutions to interduce the Objectives and Functions of CBK.**

## **F. Organizing Receptions on the Following Occasions:**

- National holidays.
- Eid Al-Fitr.
- Honoring of distinguished employees for 2016.

## **G. CBK has Developed and Strengthened Relations Among Employees by Arranging the Following Events:**

- Organizing a trip to perform "Umrah"
- Organizing a special exhibition for CBK employees to provide special offers from telecommunications companies.
- Attracting discounts and special offers on various goods and services for CBK's employees from over 220 merchants and service providers.
- Organizing awareness lectures about first aid, firefighting, nutritional balance, travel and exploration, breast cancer awareness, rational use of water and electricity, World No Tobacco Day (WNTD) and health care day.
- Conducting a questionnaire on the efficiency and level of service provided to customers contacting the customer protection unit to ascertain their satisfaction with the service.

## **H. Documentation and Museum Display**

Realizing it is imperative to share its accumulated culture and experience, taking pride in its history, and aiming to document landmarks in monetary, financial and economic policy, as well as documenting the

contributions of successive leaders who held the helm in the past, the CBK worked towards the following:

- Following-up the implementation procedures of CBK's museum project.
- Launching the project of collecting and identifying photographic material by saving it in collective storage and digitizing it to serve as the core for a central photography and video archive documenting information on key events and personalities.
- Continuing the efforts to review the contents of the centers dedicated to the preservation of historical documents and collectibles at CBK's departments.
- Reviewing the documents intended for disposal in CBK's various departments, which are archived in the Administration Services Department, and selecting what merits permanent preservation.
- Preparing informative historical trivia material for CBK employees and broadcasting it periodically in the form of "Did you know?".
- Organizing a visit to the Sheikh Ahmad Al-Jaber Oil & Gas Exhibition, the National Bank of Kuwait (NBK) Museum to learn about the latest museum display systems and to strengthen relations with the curators of these museums, and attend the Documentation and Electronic Archiving conference and workshop to examine the latest theories and pursue the latest applications in this area.

#### • Technical Production and Publications

In order to present CBK printed material 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, CBK has conducted the following:

- Design of commemorative coins for (General Organization for Social Insurance for the 40<sup>th</sup> anniversary for implementing the social insurance system in the State of Kuwait- Opening CBK's new headquarters- Golden Jubilee for the establishment of CBK), as well as design and production of boxes for Amiri and VIP gifts.



The Golden Jubilee for the Establishment of CBK  
(1968 - 2018)

- Printing of all reports and publications for the Economic Research Department and the Financial Stability Office (Monthly Bulletin - Quarterly Bulletin -Annual Report -economic Report - Financial Stability Report).
- Printing the annual calendar for 2018.
- Meeting CBK's stationery and related supplies requirements through the production of all forms of stationery (folders - stickers - correspondence papers - correspondence envelopes - records). In total, 372 orders have been executed for various departments.

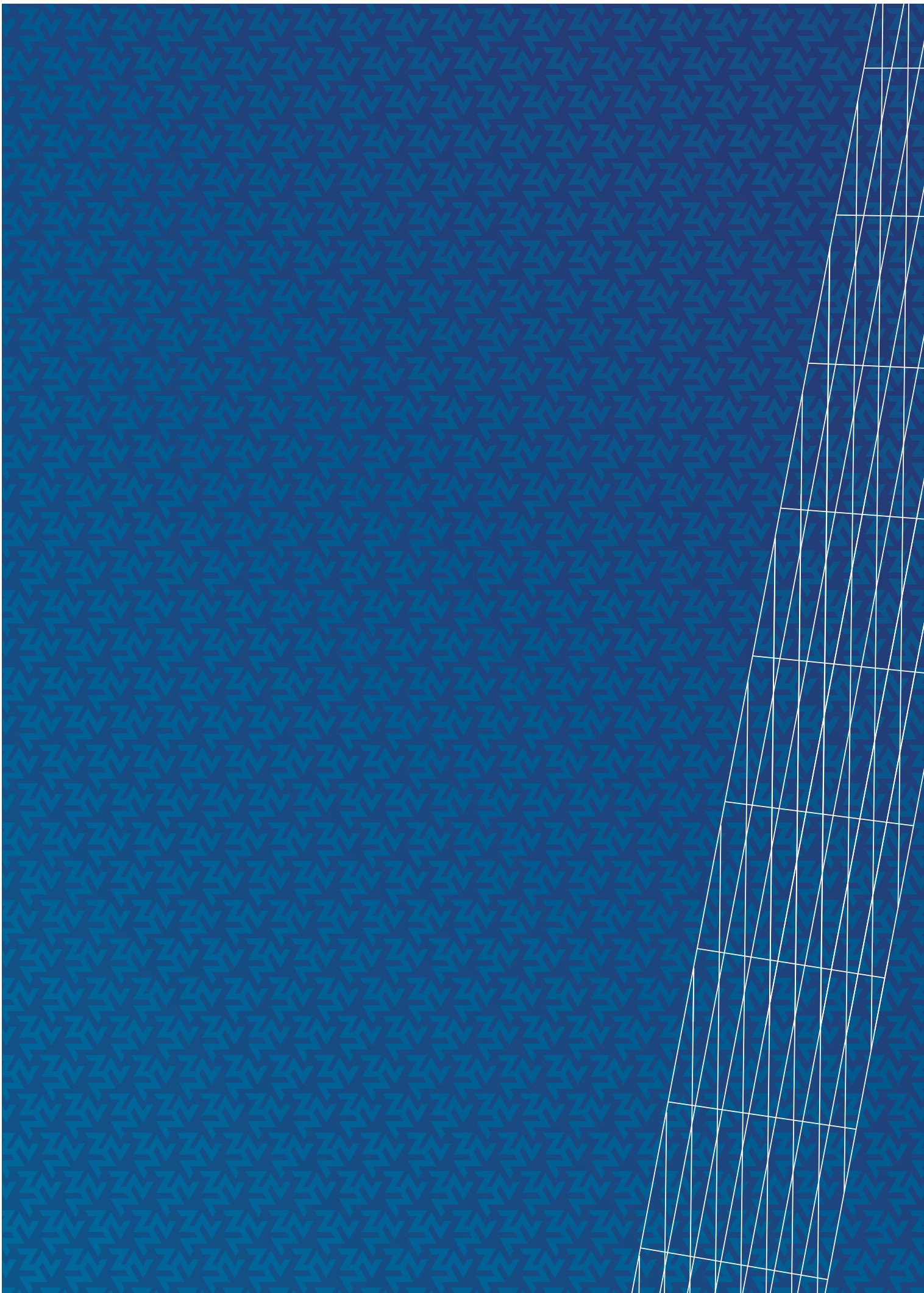




H.H. the Amir sponsors inauguration of new CBK headquarters

## Sixth: CBK Financial Statements for the Fiscal Year ended 31 March 2018

- Auditors' Report.
- Balance Sheet as at 31 March 2018.
- Profit & Loss Account For FY ended 31 March 2018.
- Notes to the Financial Statements (31 March 2018).



# AUDITORS' REPORT

We have audited the financial statements of the Central Bank of Kuwait (“The Bank”), which comprise the Balance Sheet as at 31 March 2018, and the Profit & Loss Account for the year then ended, and a summary of significant accounting policies and the other explanatory notes.

In our opinion, the financial statements present fairly the financial position of the Bank as at 31 March 2018 and the results of its financial performance for the year then ended, in compliance with Law No. 32 of 1968 and amendments thereto.

**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

19 April 2018

State of Kuwait

**Balance Sheet as at 31 March 2018**  
(All amounts in KD)

Assets	Note	31 March 2018	31 March 2017
Gold	2	31,740,444	31,737,898
Cash, current and call accounts in foreign currency with banks and other financial institutions		738,888,433	809,165,618
Deposits and investments in foreign currency	3	9,218,746,414	8,649,455,720
Other assets	4	31,240,175	38,941,712
<b>Total Assets</b>		<b>10,020,615,466</b>	<b>9,529,300,948</b>
Accounts managed by CBK on behalf of the Kuwaiti government and contra accounts	10	8,030,567,617	7,139,328,222

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

Balance Sheet as at 31 March 2018

(All amounts in KD)

Equity and Liabilities	Notes	31 March 2018	31 March 2017
Capital - fully paid up		5,000,000	5,000,000
General Reserve Fund	5	435,433,807	369,813,367
Special account	6	41,100,393	37,084,210
Profit for the year		112,804,835	65,620,440
Currency in circulation	7	1,723,792,790	1,645,937,464
Bonds issued by CBK	8	1,850,000,000	1,800,000,000
Government accounts		1,766,795,310	1,624,546,642
Local banks' current accounts and deposits with CBK	9	3,157,756,356	3,098,878,327
International institutions		178,605,508	196,827,006
Guarantees on documentary credits	10	536,441,354	508,793,916
Other liabilities	11	212,885,113	176,799,576
<b>Total Equity and Liabilities</b>		<b><u>10,020,615,466</u></b>	<b><u>9,529,300,948</u></b>
Accounts managed by CBK on behalf of the Kuwaiti government and contra accounts	10	<u>8,030,567,617</u>	<u>7,139,328,222</u>

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

**Profit & Loss Account For the FY ended 31 March 2018**

(All amounts in KD)

Items	Notes	31 March 2018	31 March 2017
Interest and income from investments		156,072.310	107,720.078
Interest and commissions expenses		<u>(111,955)</u>	<u>(28,596)</u>
		155,960,355	107,691,482
Other income		<u>550,184</u>	<u>1,745,879</u>
Operating income		156,510,539	109,437,361
Operating expenses	12	<u>(43,705,704)</u>	<u>(43,816,921)</u>
Net profit for the year		<b>112,804,835</b>	<b>65,620,440</b>
Appropriated according to Article 17 of Law 32 of 1968 and amendments thereto, as follows:			
to General Reserve Fund's Account	5	<u>112,804,835</u>	<u>65,620,440</u>

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

## Notes to the Financial Statements (31 March 2018)

### 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 2018	31 March 2017
Deposits with banks and foreign institutions	9,214,250,914	8,644,885,220
CBK Facilities to International Bank for Reconstruction and Development	4,495,500	4,570,500
	<u>9,218,746,414</u>	<u>8,649,455,720</u>

#### 4. OTHER ASSETS (KD)

Items	31 March 2018	31 March 2017
Accrued interest on deposits and other assets	22,957,021	23,563,190
Investments denominated in Kuwaiti Dinars	2,791,210	2,791,210
Prepaid expenses	2,133,881	2,611,404
Other receivables	3,358,063	9,975,908
	<u>31,240,175</u>	<u>38,941,712</u>

#### 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 2018	31 March 2017
Balance at the beginning of the year	37,084,210	73,183,446
Net foreign currency translation difference from revaluation of monetary assets and liabilities denominated in foreign currencies	4,016,183	(36,099,236)
Balance at the end of the year	<u>41,100,393</u>	<u>37,084,210</u>

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 2018	31 March 2017
Net currency issued	2,572,164,776	2,266,359,900
Less: currency in the CBK vaults	(848,371,986)	(620,422,436)
	<u>1,723,792,790</u>	<u>1,645,937,464</u>

- 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 2018	31 March 2017
Current accounts	1,260,560,897	941,703,423
Deposits	630,000,000	1,095,000,000
Tawarruq - (Takings)	1,267,195,459	1,062,174,904
	<u>3,157,756,356</u>	<u>3,098,878,327</u>

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

Items	31 March 2018	31 March 2017
(a) Accounts managed by CBK on behalf of the Kuwaiti government	<u>5,325,432,438</u>	<u>4,550,352,572</u>
(b) Contra accounts:		
Letter of Credit	2,702,200,983	2,586,010,425
Memorial Coins	2,934,196	2,965,225
	<u>2,705,135,179</u>	<u>2,588,975,650</u>
Collections According to Law No. 41 of 1993	<u>8,030,567,617</u>	<u>7,139,328,222</u>

On 31 March 2018, CBK held guarantees of KD 536,441,354 (2017: KD 508,793,916) against the letters of credit referred to above.

## 11. OTHER LIABILITIES (KD)

Items	31 March 2018	31 March 2017
Payable expenses	11,014,557	10,476,651
Other payables	192,513,851	165,670,386
Ministry of Finance's - Cost of Intervention in the money market (Note 2)	9,356,705	652,539
	<u>212,885,113</u>	<u>176,799,576</u>

- 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.

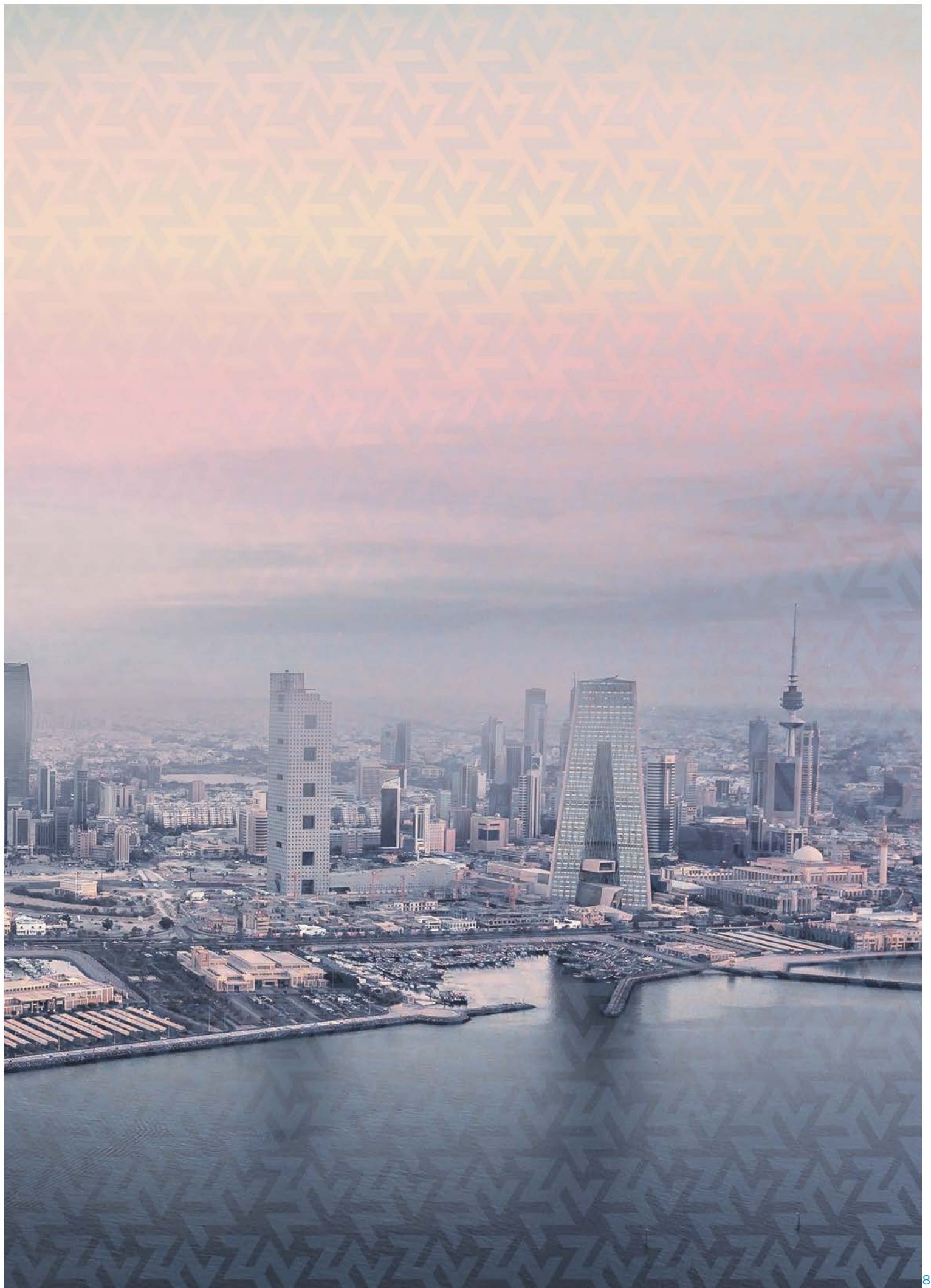
## 12. OPERATING EXPENSES (KD)

Items	31 March 2018	31 March 2017
Employee costs	29,335,473	28,724,534
Administrative and computer costs	7,170,351	6,433,080
Purchase of furniture and equipment	395,539	207,570
Production and shipment of currency	2,029,629	2,117,350
Sundry expenses	2,723,033	2,830,793
Construction costs	2,051,679	3,503,594
	<u>43,705,704</u>	<u>43,816,921</u>

## 13. PROMISSORY NOTES HELD

On 31 March 2018, the amount of promissory notes held by CBK in safe custody on behalf of international institutions was KD 619,397,366 (2017: KD 608,035,092).





تم بحمد الله

