

بنك الكويت المركزي
CENTRAL BANK OF KUWAIT



PREEMPTING THE SHOCK

ANNUAL
REPORT

| **2020/2021**

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ



The Amir of the State of Kuwait

H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah



The Crown Prince of the State of Kuwait

H.H. Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah



The Prime Minister of the State of Kuwait

H.H. Sheikh Sabah Khalid Al-Hamad Al-Sabah

Central Bank of Kuwait Annual Report 2020/21

BOARD OF DIRECTORS



Central Bank of Kuwait Annual Report 2020/21



**Mohammad Y. Al-Hashel,
Ph.D**

The Governor
Chairman of the Board of Directors



Yousef J. Al-Obaid

Deputy Governor



Saleh A. Al-Aqely, Ph.D

Assistant Undersecretary,
Ministry of Commerce &
Industry



Aseel S. Al-Munifi

Undersecretary,
Ministry of Finance



Mustafa J. Al-Shamali

Private Sector



Nasser A. Al-Roudan

Private Sector



Ahmed Y. Al-Sager

Private Sector



Osama M. Al-Nisf

Private Sector

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Dr. Mohammad Y. Al-Hashel

Governor,
Central Bank of Kuwait

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This crisis was a true test to the robust monetary and regulatory policies that the Central Bank of Kuwait has worked diligently to implement over the past decade.

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FOREWORD

It is my pleasure to present to you the Central Bank of Kuwait's 49th Annual Report for the 2020/2021 fiscal year, which also includes audited financial statements for the period until March 31, 2021.

It has undoubtedly been an exceptional year, taking into consideration the Central Bank of Kuwait's success in facing a multitude of challenges that have risen due to the Coronavirus pandemic. This crisis has been unprecedented, reaching all corners of the earth since it was first discovered at the end of 2019, until the present day. Total and partial lockdowns in various countries around the world also affected supply and demand, which placed a hiatus on economic activity and ultimately led to massive employment loss and incurred huge damage to several economic sectors. Locally, the impact of the crisis was compounded by the drop in oil prices, which called for more spending in face of income loss.

This crisis was a true test to the robust monetary and regulatory policies that the Central Bank of Kuwait has worked diligently to implement over the past decade. It showcased the strength of these policies and boosted the nation's banking sector, specifically in its ability to provide financial services to

the public, despite increasing pressure and unusual circumstances that were forced by the pandemic. The Central Bank of Kuwait continued its operations seamlessly without any interruption whatsoever, and it continued to perform its role with speed and efficiency.

During the last fiscal year, the Central Bank of Kuwait continued its efforts to maintain monetary and financial stability through a proactive approach and early interventions, while continuing to utilize monetary policy tools, supervisory policies, and macro prudential instruments, in a professional manner that strengthens sustainable economic development. The Central Bank of Kuwait was also successful in preserving the robustness of the local currency as a stable and reliable reserve for local investments, while ensuring that banks and authorities it oversees continue to provide their financial services to the local economy and public, in a seamless, swift and safe manner.





The Central Bank of Kuwait presented a series of measures and proposals to counter the crisis, in its capacity as a financial advisor to the government.



Since this crisis was unprecedented, the Central Bank of Kuwait played its mandated role as a financial consultant to the government, which required leadership to stimulate the national economy in face of the challenges posed by the pandemic. It also upheld its role in developing the legislative framework, placing controls to implement policies related to banking and finance, in addition to presenting studies and predictions on the crisis, and ways to address its various ramifications.



The Central Bank of Kuwait has a solid, prudent corporate culture based on facilitating flow of knowledge, exchange of expertise, boosting excellence, and enhancing productivity

The COVID-19 pandemic also bore witness to the sagacity of the financial and regulatory policies at the Central Bank of Kuwait. It displayed its institutional culture that strives to facilitate the flow of knowledge and the exchange of expertise, while enhancing excellence and increasing productivity through a work environment that encourages its employees to develop their performance and skillset. Dependence on a national workforce was a long-term initiative at the Central Bank of Kuwait when it comes to training and development, and during this past year the institution has worked diligently to strengthen this aspect of its corporate



The Central Bank of Kuwait seeks to further improve performance through utilizing up-to-date supervisory and regulative technology, adequate data governance, continued improvement of cybersecurity and information security, and through care to green finance.



culture, mainly through its efforts to continue the development of its employees and focus on their continued training.

The Central Bank of Kuwait has also focused on employee development as means of enhancing corporate infrastructure that pertains to IT and digital economy, in order to provide a strong base for Fintech development. This includes ongoing efforts to ensure the growth of auditing systems for these electronic services, as well as sound and strong management of both information security and cybersecurity.

Additionally, corporate social responsibility and public outreach has also continued throughout the last year, primarily through awareness campaigns that alert the public to their rights while raising financial and banking knowledge; a campaign was launched in partnership with the Kuwait Banking Union, in addition to other communication and CSR activities.

With all of the precautions and steps taken to face the pandemic over the course of the last year, it is still premature to say that the crisis is over. An overwhelming feeling of uncertainty still hovers over the future of the economy, which is why the Central Bank of Kuwait's future outlook is to focus on strengthening the financial sector in order to face any challenges that may arise. The risks involved in unwinding the policies implemented to confront the crisis, and the impact of digitization on the role of financial mediation in the banking sector and the impact of a low-interest environment on the banking sector's business model, cannot be overlooked.

The Central Bank seeks to continue to strengthen its regulatory efforts and develop its activities in this regard, by making use of Regtech and Suptech. These technologies can play an active role in combatting money laundering and terror finance, as well as prudential management, which reflects on the strength and stability of the banking sector.

With the increasingly important role of Big Data, the Central Bank of Kuwait places great emphasis on data governance, taking into consideration the financial sector's use of data in service and product development to cater to the needs of its clients, while ensuring their privacy. The Central Bank of Kuwait has also placed great importance on cybersecurity and data security as a priority, in light of the increasing role of technology and cyber risks associated with it. Another pivotal focus is green finance, through environmental disclosure standards and environmental effects standards, and the requirements placed on

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Nurturing human resources, supporting innovation, and supporting sustainability of the finance industry are topmost goals within the Central Bank of Kuwait's outlook.

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banks in this regard and its inclusion in stress test forms.

Looking forward, one of the most prominent goals that the Central Bank of Kuwait seeks to achieve is the sponsorship of innovation and its support to develop the financial industry on a sustainable basis. This also includes the development of a state of the art financial infrastructure, which will serve to encourage innovative financial services that will safely and securely cater to the needs of clients. Digital currencies issued by central banks will be pivotal in the future, and several of these banks around the world are studying its feasibility and developing preliminary models for these currencies. This is undertaken in order to test the necessary infrastructure needed to explore the possibility of introducing this type of currency, in replacement of traditional paper currency. If these experimental models succeed, it will have a huge impact on payment and remittances, as well as on financial inclusion.

With all that the future holds in regards to challenges and opportunities, people remain at the center of this transformation. Therefore, the Central Bank of Kuwait will continue to develop its national workforce, increasing their knowledge and expertise, in order to proceed

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The Central Bank of Kuwait steers its future focus onto bolstering the resilience of the banking sector, as defense against any possible developments of the current crisis.

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with the journey of distinction and success that this institution has led for several decades in service to the nation's economy.

In conclusion, we beseech God Almighty that our efforts to serve our nation continue to succeed, in light of the generous care and direction of His Highness the Amir Sheikh Nawaf Al Ahmed Al Jaber Al Sabah and His Highness the Crown Prince Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah, and His Highness the Prime Minister Sheikh Sabah Khalid Al-Hamad Al-Sabah, may God save and protect them.

Dr. Mohammad Y. Al-Hashel

Governor, Central Bank of Kuwait

ANNUAL REPORT ... NUMBERS AND INDICATORS

1. CBK financial data

Total CBK balance sheet: KD 12.74 billion

Deposits: KD 11.702 billion

Local banks' current accounts and deposits: KD 5.586 billion

Currency in circulation: KD 2.1 billion

Operating income: KD 68.56 million

Operating expense: KD 46.8 million

Net profit: KD 21.8 million

2. Kuwaiti banking sector performance



Capital Adequacy Ratio



Liquidity Coverage Ratio



Non-Performing Loans Ratio



NPL Coverage Ratio



Compound Annual Growth in Credit Facilities

3. CBK-regulated units

Total of units registered: 115 entities



23 banks



53 investment companies



39 exchange companies

4. Developing CBK organizational structure to be more resilient and dynamic:

- Forming the CBK Higher Committee of Shari'ah Supervision
- Establishing the Center of Excellence
- Restructuring organizational units

5. Human Capital



Nationalization: national labor came to **93%**



Women Empowerment:

- Women among CBK staff: **58.3%**
- Women in top CBK positions: **41.5%**



Training: **90** in-house and external training programs



Scholarships: nationals are still given scholarships to obtain Master's and PhDs



Distinguished performance awards: **5** staff are chosen and honored annually for distinguished performance to encourage excellence among staff



Technical degrees: nationals are encouraged to obtain specialist technical certification

- Certified Internal Auditor (CIA) 
- Certified Management Accountant (CMA) 
- Chartered Financial Analyst (CFA) 
- Senior Professional in Human Resources (SPHR) 
- Certified Information Security Manager (CISM) 
- Cisco Certified Internetwork Expert (CCIE) 

6. Encouraging innovation



- Establishing the CBK Center of Excellence
- Launching a program to encourage staff to present suggestions and innovative ideas towards development

7. Technological development:



Developing information technology systems and infrastructure to enhance efficiency

- Kuwait National Payment System (KNPS)
- Real-time Gross Settlement System
- GCC Real Time Gross Settlement System
- Electronic Banking Services System (EBSS) for ministries and government bodies
- Liquidity Management System
- Dashboard and Reporting System



Creating secure environment that supports FinTech

- Registration of 11 Electronic Payment Infrastructure Providers (EPIPs)
- Banking sector's cyber-security framework
- The regulatory sandbox



Empowering innovation in the sector

- Encourage the adoption of FinTech
- Digital wallets
- Electronic Know Your Customer guidelines (**eKYC**)





- **Drawing up future strategy**
- Banking sector units
- Shared electronic banking company K-NET
- Credit information network Ci-Net
- Institute of Banking Studies

8. Social responsibility



Contactless transactions through Near Field Communication (NFC)



Return to Work Protocol for the banking sector

9. Disclosure and transparency



Social networks: 5 platforms



Followers of social networks accounts: 114,600



Website visitors: 207,179

Views of website page: 2,176,491



Regular reports:

- Dynamic statistical publications:
 - Monthly
 - Quarterly
- National Summary Data Page (NSDP)
- CBK statement of account
- Monthly monetary statistical bulletin
- Quarterly statistical bulletin
- Economic report
- Financial stability report
- Annual report

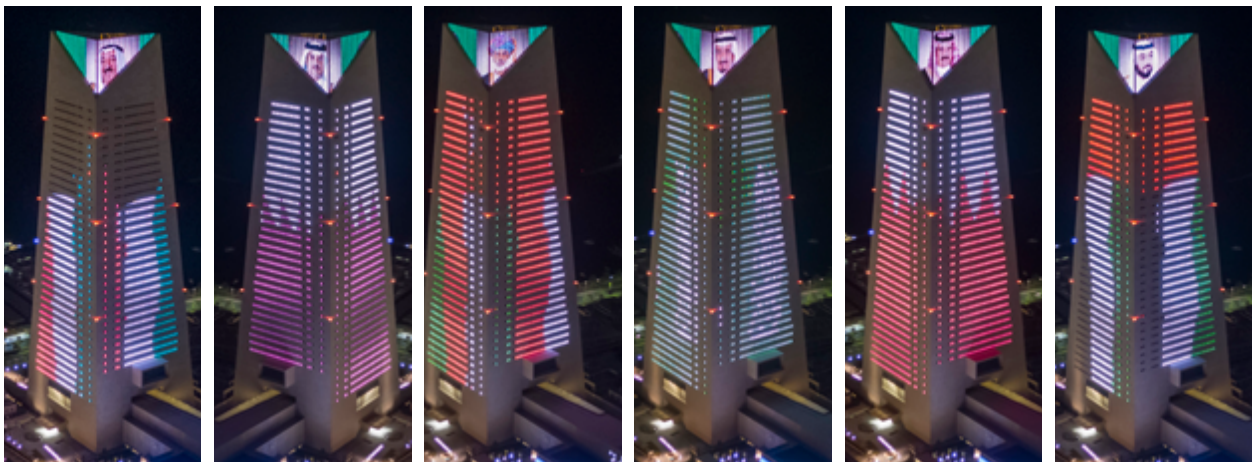
10. National celebrations

The Central Bank of Kuwait continues to mark national, GCC, and historical occasions through issue of commemorative coins and occasion-suited lighting displays





Abdulmajeed Al-Shatti



Business Continuity at the Central Bank of Kuwait and the Banking Sector

Business continuity at the Central Bank of Kuwait and the banking sector is one of the most important priorities at the Central Bank of Kuwait, as plans have been developed continuously to avert any possible difficult situation, which equipped the Central Bank of Kuwait with the tools it needed to face the unprecedented challenges brought upon by the COVID-19 pandemic. The pandemic forced an extended period of full and partial lockdowns, and it also saw a drop in the physical workforce to the bare minimum. The Central Bank of Kuwait was able to continue operation without any core business interruption, whether in relation to its main operations, security procedures, payment settlement systems, or electronic cheque clearing. This was done while providing all governmental banking services with the speed and efficiency that is expected, while also undertaking its supervisory role on the

banking sector to ensure that local banks continue to provide financial services and process local and international transfers, whether for commercial entities that import basic goods that are tied to food security, or other companies and individuals. This was all done seamlessly and swiftly, while maintaining services through electronic channels, points of sale, and providing cash at bank ATMs.

In order to support the Central Bank of Kuwait's efforts to continue operation without exposing its employees to risk, the CBK adopted a remote work plan, and developed safety protocols to ensure a healthy work environment in coordination with an international consultancy firm. It also drafted a plan for the gradual return to work, in line with the five phases of returning to normal life as announced by the Cabinet.



Monetary, Banking and Economic Developments



The change in USD against the Kuwaiti Dinar was **2.4%**, while fluctuations in the exchange rate of the USD against main currencies were within relatively wider margins.



First: Monetary Policy:

The fiscal year (FY2020/21) witnessed a series of developments in monetary and banking indicators in the State of Kuwait. These developments reflect the efforts of the Central Bank of Kuwait in planning and executing a monetary policy that aims to enhance monetary stability and financial stability in the country.

In respect to local interest rates, in light of continuous monitoring of the economic, financial, monetary and banking developments, and forecasts for their movement and of regular review of global currency interest rates, the Central Bank of Kuwait decided to keep interest rate unchanged for FY2020/21 at the current rate of 1.5%. By doing so, existing caps on interest rates for KD loans to the Central Bank of Kuwait's clients were protected. As part of its intervention policy as it applies to the monetary market, beginning on October 28, 2020, the Central Bank of Kuwait implemented a reduction of 0.125% in intervention rates currently applied for all terms, up to ten years. This includes repurchase agreements and Central Bank of Kuwait bonds, as well as the system of accepting time deposits and direct intervention instruments, in addition to public debt instruments.

During FY2020/21, the CBK maintained diligent efforts to preserve the relative stability of the Kuwaiti dinar's value against other currencies. This was achieved within the system in place since May 20, 2007 which pegs the KD to a weighted basket of currencies of the State of Kuwait's major trade and finance partners. The average exchange rate of the US dollar (USD) against KD for FY2020/21 was 305.650 fils per USD, compared to about 304.083 fils per US dollar the previous fiscal year. This was an increase of 1.567 fils and 0.52% in the USD exchange rate. FY2020/21 witnessed a narrowing in the margin between average interest rate on KD time deposits and USD time deposits, remaining in favor of the Kuwaiti dinar.

FY2020/21 witnessed a rise in money supply in the broad sense (M2), which reached about KD 38,745.4 million. This compares to KD 38,022.6 million at the end of the previous year, i.e. an increase of 1.9% and KD 722.8 million, compared to a drop of KD 924.7 million or 2.4% during the previous year. Data also indicate an increase of about KD 426.8 million, or 1%, in residents' deposits with local banks to a total of KD 43,884.2 million at the end of FY2020/21. This compares to a value of KD 43,457.4 million at the end of the previous year.

The CBK maintained its efforts to regulate local liquidity levels. The cash basis balances increased from KD 8,398.6 million by the end of FY2019/20 to KD 9,587.1 million by the end of FY2020/21, i.e. an increase by KD 1,188.6 million (14.2%).

As for utilized cash credit facilities provided by local banks to various local economic sectors during FY2020/21, the balance increased by KD 1,101.2 million or 2.8%. By the end of said year, cash balances were at about KD 40,180.8 million, compared to KD 39,079.6 million at the end of FY2019/20.

The increase in utilized credit facilities was driven by:

- Household facilities by KD 1,152.3 million, i.e. 7.0%.
- Real estate sector by KD 180.0, i.e. 2.0%.
- Industrial sector by KD 71.5 million, i.e. 3.4%.
- Oil and gas sector by KD 61.0 million, i.e. 3.2%.

FY2020/21 also witnessed a decline in balances

of cash credit facilities extended by local banks to various sectors, most notably:

- Trade Sector: Approximately KD 262.3 million at a rate of 7.6%.
- Non-Bank Financial Institutions Sector: Approximately KD 188.2 million at a rate of 16.5%.
- Construction Sector: Approximately KD 30.3 million at a rate of 1.6%.
- General Services Sector: Approximately KD 7.4 million at a rate of 5.6%.

In regards to public debt instruments (Kuwaiti treasury bills, treasury bonds, and related tawarruq) issued by the CBK on behalf of the Ministry of Finance, there was no issuance of treasury bonds in FY2020/21. During the year, however, seven previous issues reached maturity with a nominal value of about KD 622.3 million. Accordingly, a decrease was seen in the total outstanding balance of public debt instruments (treasury bills and bonds and related tawarruq) at the end of FY2020/21, reaching approximately KD 1,050.0 million at a rate of 100% at the end of the same period.

Meanwhile, there were 40 new CBK treasury bonds and related tawarruq issues in FY2020/21, at a nominal value of KD 8,740 million. Also, 40 previous issues of these bonds with a nominal value of KD 8,740.0 million matured during the reporting year. Accordingly, the total outstanding balance of CBK bonds and related tawarruq stabilized, remaining unchanged from the year prior at KD 2958 million.



Second: Financial Stability:

The banking sector is the backbone of the financial sector in the country, and safeguarding this sector allows it to continue supporting the economy — uninterrupted and with efficiency through extraordinary circumstances — through its various financial services and products. This is one of the core mandates of the Central Bank of Kuwait. The CBK maintained its supervisory efforts in relation to CBK-regulated banking and financial institutions, despite the COVID-19 fallout on economic, financial and banking sectors. This was a continuation of its efforts to bolster financial stability in the country, and among these efforts:



In line with the CBK's regulatory actions taken to support vital economic sectors, projects that add value to the local economy, and those who have been affected by the pandemic (be they individuals, SMEs, or corporations), the Bank amended its regulatory instructions and its macro-prudential policy, to expand banks' lending capacity. This increased credit supply while increasing competition, which contributed to a reduction in interest rates, reflecting positively on demand for financing.

1. Regulatory instructions and macro-prudential policy

On April 2, 2020, the Central Bank of Kuwait enforced a set of regulatory instructions associated with capital adequacy ratios, liquidity ratios, and credit facility controls, which aim to expand the reach of monetary policy instruments. These measures include:

- Release of the 2.5% Capital Conservation Buffer.
- Reduction of SME exposure risk from 75% to 25%.
- Increase of financing cap from 90% to 100%.
- Reduction of minimum liquidity coverage ratio from 100% to 80%.
- Reduction of net stable funding minimum ratio from 100% to 80%.
- Reduction of minimum regulatory liquidity ratios from 18% to 15%.
- Increasing the maximum negative cumulative gap as follows:
 - Seven days or less, from 10% to 20%.
 - A month or less, from 20% to 30%
 - Three months or less, from 30% to 40%.
 - Six months or less, from 40% to 50%.
- Increasing loan-to-value (LTV) as follows:
 - Financing land purchase from 50% to 60%.
 - Financing real estate from 60% to 70%.
 - Financing construction only from 70% to 80%.
- Amending the guidelines that pertain to excluding clients from established credit/financing maximums, taking into consideration vital economic projects that add value to the local economy.
 - Directing banks to implement a six-month moratorium for affected clients without imposition of any fines or penalties, while also issuing a circular on moratorium guidelines.
 - Calling on banks to carry out credit review for each client individually, while reviewing investment funds and carrying out financial stress tests based on the new challenges posed by the pandemic, to ensure that bank funds remain secure.

Thus, CBK adjustments to its banking macro-prudential instruments helped it fully shoulder the banking sector's vital role in the economy. The policy easing encouraged the banking sector to extend more financing to productive sectors of the economy, as well as to clients who were affected by the pandemic; these sectors were able to meet their liquidity needs to maintain operation through the challenging circumstances brought upon by the pandemic.

2. Stress Tests:

Aiming to implement best practices that ensure the Kuwaiti banking sector's ability to operate under difficult conditions, the CBK developed its frameworks and formulated new stress test scenarios early on into the pandemic. The bank coordinated with an international consultant in this regard to adapt to an economic reality that was becoming increasingly complex and uncertain. Using state of the art technology and analysis of extensive banking and economic data, with expertise and input from many global entities, ensured that the new stress tests are capable of accurately predicting future scenarios.

The new mechanism is highly flexible and dynamic and allows for implementation of different scenarios that take into consideration macroeconomic as well as microeconomic developments. It also takes into consideration minuscule details that affect various economic sectors. To assess the new mechanism, it was implemented on 2019 data and the results confirmed its ability to interpret various scenarios and offer consistent output.

The Central Bank of Kuwait then began to implement the new stress test mechanism on data from the current year, based on three scenarios that cover the next three years. The first scenario envisaged a shock that only affected

one economic sector, while the second was of a larger shock that affects several sectors. The final scenario, meanwhile, envisaged a global crisis brought on by the COVID-19 pandemic and consequent closures, leading to the suspension of economic activity.

Even the worst results of these scenarios indicated a good level of resilience in the Kuwaiti banking sector, where it was able to maintain an average capital adequacy reaching 11.4% at the end of 2023. This is a relatively high figure, taking into consideration the dire scenarios applied, and it exceeds the Basel Committee on Banking Supervision (BCBS) capital adequacy ratio requirements, set at a minimum of 10.5%.

The new stress test mechanism is the first stage within a project that includes, in its next stage, utilization of artificial intelligence and machine learning technology. The goal of this stage is to improve output quality and increase the ability to analyze and make connections between different factors in order to develop a deeper understanding of developments in the economy and banking sector. This would further enhance stress tests quality, supporting the CBK's continuous effort to maintain monetary stability and financial stability in the State of Kuwait.

Stress Test Mechanism

What are stress tests?

Exercises that test the resilience of the banking sector and its ability to absorb various types of shocks (such as price drops in oil, real estate, or stock market).



The Objective

To identify weaknesses to be addressed, and to enhance the ability of the Kuwaiti banking system to operate under pressure.

3. Examining and Analyzing Banks Financial Data:

Within its efforts to bolster financial stability, the Central Bank of Kuwait conducted a study that analyzed an overview of financial data of Kuwaiti banks for the fiscal year ending December 2020. The results confirmed the banking sector's robustness and financial soundness with relation to capital adequacy, liquidity, asset quality, and profitability.

The sector's capital adequacy ratio reached 19%, which is higher than the minimum requirement of 13% set by the Central Bank of Kuwait. It also exceeds the BCBS requirement of 10.5%. Despite the fact that the Central Bank of Kuwait has authorized the use of conservation buffers, banks have been able to continue business without reverting to these buffers. This is due to

a high capital adequacy ratio, which registered an increase compared to 2019 when it was 18.5%, in light of some banks increasing their regulatory capital through bond issuance in the international financial markets. This is done under the condition that allows these tools to be eligible for inclusion within the capital framework, according to the requirements set by the BCBS. This confirms the global confidence placed in our local banking sector.

The banking sector also enjoys an abundance of liquidity, with liquidity coverage ratio reaching 184.2% against the minimum 100%. Net stable funding ratio reached 115.3% to remain higher than the minimum requirement of 100%, whereas regulatory liquidity reached approximately 27.5% against a minimum percentage of 18%.

Regarding asset quality, the study indicated that this sector was able to maintain high levels in this respect as well. For example, in 2020, provisions made against loans charged to the income statements amounted to approximately KD 852 million. Whereas the increase in total provision balance available to banks reached approximately KD 403 million. Banks used the remaining balance to write off bad debt, in order for the sector to maintain non-performing loans at

Based on the study, the banking sector successfully navigated the first year of the pandemic, due to the fruition of the Central Bank of Kuwait's efforts over the course of the past decade, which led to the formation of a solid resilient banking sector.

a historical low rate of 2%. Despite this decline in the non-performing loan coverage ratio (allocated provisions for non-performing loans) from 271% to 222%, due to the use of allocations as they were intended, the percentage still remains strong and amplifies the quality of these assets. Furthermore, it acts as additional durable buffers that can face any possible debt defaults.

As for profitability, despite the challenges presented by the pandemic, which affected the operational environment of the banking sector, net profit of KD 495 million was secured in 2020. This is a 48.7% drop from the profits recorded a year prior, KD 964 million in 2019.

Kuwaiti Banks Financial Performance

Kuwaiti Banks Financial Performance for the fiscal year ending December 31, 2020

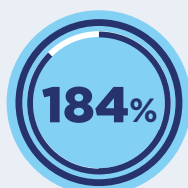
We reiterate the call for immediate comprehensive structural economic reform



- The Central Bank of Kuwait faces the fallout of the pandemic with a complete mitigation strategy framework of over 30 measures.
- Despite the severe impact of the crisis on the economy, results of Kuwaiti banks financial performance confirm banks remain robust.
- Over the span of the last decade, macro prudential policies have fortified the banking sector by enhancing quality of risk management, while strengthening capital bases and precautionary provisions.
- It is still too early to declare the end of the crisis, which requires ongoing vigilance, prudence, and cooperation from all stakeholders.
- The Central Bank of Kuwait reemphasized the importance of expediting comprehensive structural reform to guarantee sustainable inclusive prosperity for all.



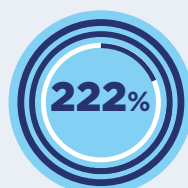
Capital Adequacy Ratio



Liquidity Coverage ratio



Non-Performing Loans Ratio



NPL Coverage Ratio



Compound Annual Growth in Credit Facilities

Kuwaiti Banks Financial Performance for the fiscal year ending December 31, 2020

Third: Banking Developments:

1. Local Banks' Aggregate Balance Sheet on the Domestic Level (The activity of local banks' and their branches inside Kuwait):

Data shows an overall rise in local banks aggregate balance sheet in respect to local activity, reaching a value of KD 73,896.7 million at the end of FY 2020/2021. This is an increase of approximately KD 1,122.7 million at

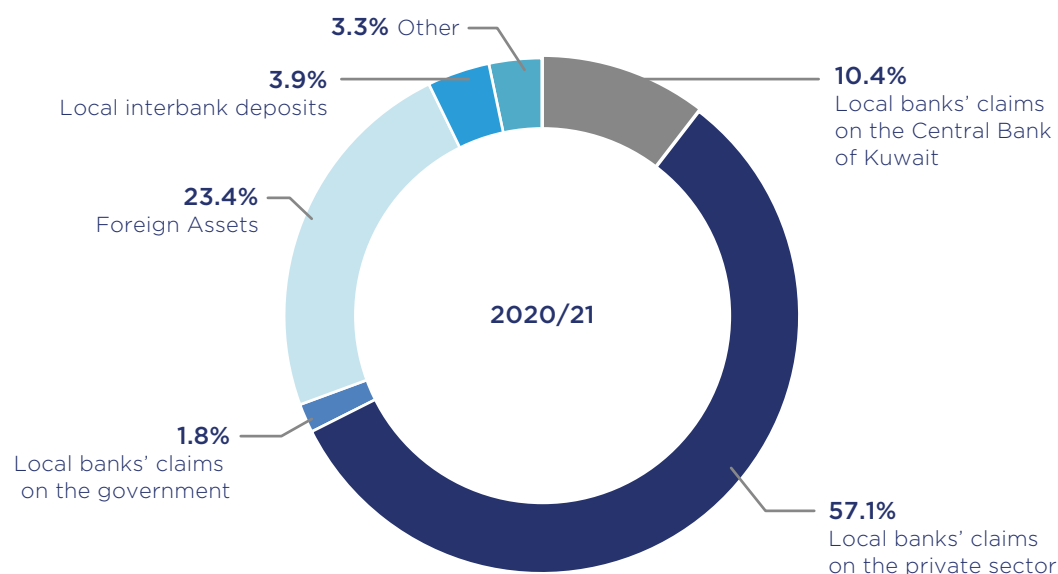
a rate of 1.5% in the aggregate balance sheet of local banks, and was an outcome of several developments in assets and liabilities, most significant of which are outlined below:

A- Aggregate Assets of Local Banks:

- The **balance of local banks' claims on the private sector** increased by approximately KD 1,250.8 million at a rate of 3.1%, to reach KD 42,210.5 million at the end of FY 2020/2021 as compared to KD 40,959.6 million the year before. This rise came as a result of an increase in balances of utilized cash portion of credit facilities extended by local banks to various domestic economic sectors to approximately KD 1,101.2 million or 2.8%, amounting to KD 40,180.8 million at the end of FY 2020/2021 compared to KD 39,079.6 million at the end of the previous fiscal year. The increase in other local investment balances was approximately KD 149.6 million at 8% to reach KD 2,029 million, compared to approximately KD 1,880.1 million the previous fiscal year.
- The **balance of local banks' claims on the Central Bank of Kuwait** saw an increase of approximately KD 1,003.4 million at 14.9%, reaching KD 7,720.6 million at the end of FY 2020/2021, compared to KD 6,717.2 million the previous fiscal year.
- The **balance of foreign assets decreased** by approximately KD 5.9 million to reach KD 17,284.4 million at the end of FY 2020/2021. This compares to KD 17,290.3 million the year before.
- The **balance of local interbank deposits dropped** by approximately KD 455.5 million, down 13.6% to KD 2,895.2 million at the end of FY 2020/2021. This compares to approximately KD 3,350.7 million dinars at the end of FY 2019/2020.
- The **balance of local banks' claims on the government dropped** by approximately KD 656.7 million or 32.8%, reaching KD 1,345.7 million at the end of FY 2020/2021 compared to KD 2,002.5 million the previous year.

Chart 1

Proportional Distribution of Local Banks Assets



Source: Central Bank of Kuwait

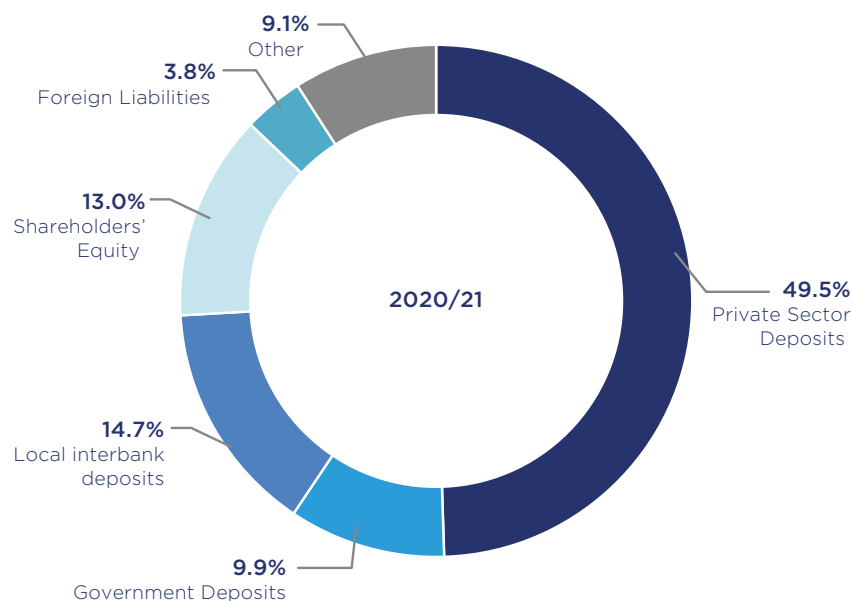
B- Aggregate Liabilities of Local Banks:

- **Private sector deposits (resident) with local banks increased** by approximately KD 699.0 million or 1.9%, reaching KD 36,596.1 million at the end of FY 2020/2021, which compares to KD 35,897.1 million the previous fiscal year.
- **Government deposits with local banks dropped** by KD 272.2 million or 3.6%, reaching KD 7,288 million at the end of FY 2020/2021. This compares to KD 7,560.3 million the previous year.
- **Local interbank deposits decreased** by approximately KD 417.0 million or 12.8%, reaching KD 2,831.7 million at the end of FY 2020/2021. This compares to KD 3,248.8 million the year before.
- **Local banks' shareholders' equity increased** by approximately KD 251.2 million or 2.7%, reaching KD 9,603.6 million at the end of the year concerned. This compares to KD 9,352.4 million the year before.
- **Foreign liabilities increased** by approximately KD 928.5 million or 9.3% reaching KD 10,883.6 million at the end of FY 2020/2021, which compares to KD 9,955.1 million the year prior.
- Contra accounts balance meanwhile reached KD 18,675.8 million at the end of FY 2020/2021 compared to KD 17,377.0 million the year prior. This is an increase of KD 1,298.8 million or 7.5%. Contra accounts balance accounted for 25.3% of the aggregate balance sheet of local banks on the domestic level, compared to 23.9% at the end of FY 2019/2020.



Chart 2

Proportional Distribution of Local Banks Liabilities



Source: Central Bank of Kuwait

Local Banks Aggregate Balance Sheet - Local Activity

Table 1

(KD million)

Item	Closing balance		Change	
	2019/20	2020/21	Value	(%)
Assets:				
Claims on CBK	6717.2	7720.6	1003.4	14.9
Local Interbank Deposits	3350.7	2895.2	-455.5	-13.6
Claims on Government	2002.5	1345.7	-656.8	-32.8
Claims on Private Sector	40959.6	42210.5	1250.9	3.1
Foreign Assets	17290.3	17284.4	-5.9	0.0
Other Assets	2453.7	2440.4	-13.4	-0.5
Total Assets = Total Liabilities	72774.0	73896.7	1122.7	1.5
Private Sector (Resident) Deposits	35897.1	36596.1	699.0	1.9
Government Deposits	7560.3	7288.0	-272.3	-3.6
Local Interbank Deposits	3248.8	2831.7	-417.1	-12.8
Shareholder's Equity	9352.4	9603.6	251.2	2.7
Foreign Liabilities	9955.1	10883.6	928.5	9.3
Other Liabilities	6760.4	6693.7	-66.7	-1.0
Contra Accounts:	17377.0	18675.8	1298.8	7.5
Number of Banks:	23	23		

Source: Central Bank of Kuwait

Fourth: Annual Inflation Rate

Data from the Central Statistical Bureau indicates that the annual inflation rate (measured by the relative change in the Consumer Price Index, base year 2003=100) reached approximately 2.4% during FY 2020/2021 compared to approximately 1.4% during the year prior. **Main contributors to this rise in inflation rate were:**

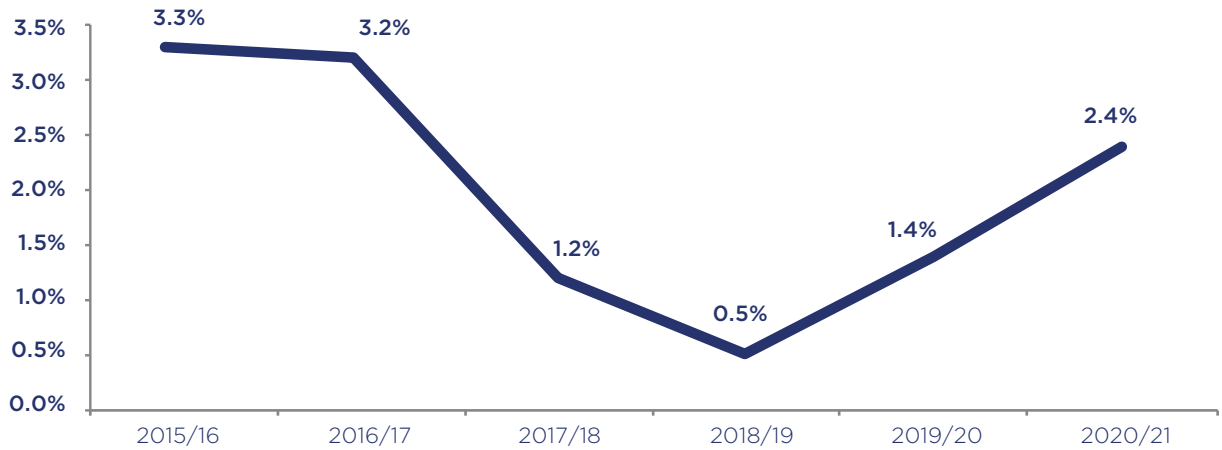
- Food and Beverages (relative weight 16.7%) with a contribution that reached 44.6%.
- Furnishing, Equipment & Household Maintenance (relative weight 11.4%) with a contribution of 19%.
- Transport (relative weight 7.5%) with a contribution of 9.1%.
- Communications (relative weight 4%) with a contribution of 6.6%.

On the other side, the relative contributors to the drop in the inflation rate in FY2020/21 are:

- Housing Services (relative weight 33.2%) at approximately 0.4%.
- Education (relative weight 4.2%) at approximately 15%.

Chart 3

Annual Inflation Rate (%)

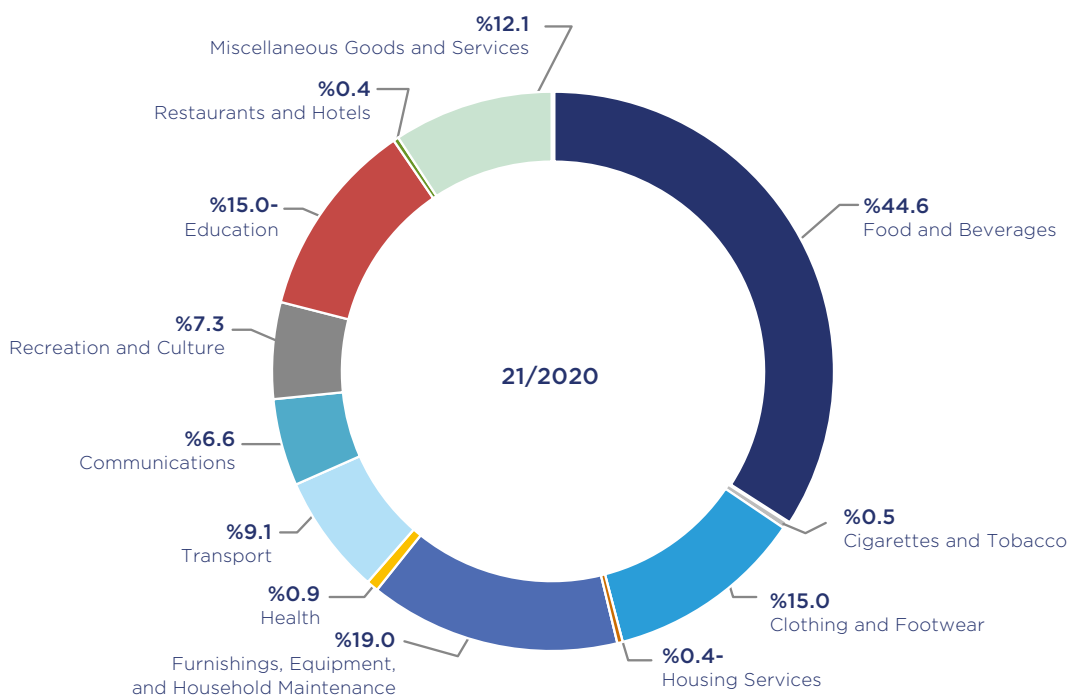


Source: Central Statistical Bureau

“ Annual inflation rates increased to **2.4%** during FY **2020/2021**, compared to approximately **1.4%** during FY **2019/2020**. ”

Chart 4

The Relative Contribution to the Inflation Rate of the Most Prominent Sectors for FY 2020/2021



Source: Central Statistical Bureau

Fifth: Efforts to Support Economic Recovery:

In order to face the negative impact of the pandemic on the economy, the Council of Ministers issued Decree 455 on March 31, 2020, which included a set of 11 policy reforms to mitigate the impact of total and partial lockdowns enforced to curb the spread of COVID-19. These reforms prioritized prudent use of public funds, guaranteeing social protection, safeguarding jobs of Kuwaiti nationals in the public and private sectors, and enhancing social security. The decree stated upon the “formation of a committee comprising the Central Bank of Kuwait Governor (Chairman), the Ministry of Finance Undersecretary (Member), and Kuwait Investment Authority Managing Director (Member), tasked with drawing up stimulatory policies for the local economy, as outlined in the Decree”.

Keen on swift action to implement the above, the committee held its first meeting on April 1, 2020, immediately after formation, holding consultations with Kuwaiti experts in the private sector. Since that first meeting and up until June 18, 2020, the committee was convened 15 times, and had communicated with over 25 institutions and met with representatives from several governmental and private sector



Press conference on pandemic related economic stimulus measures - April 2020 - Cabinet

entities. Support teams also held meetings with relevant parties such as ministries and governmental bodies, Kuwait Industrial Bank, the National Fund for SME Development, and banking sector representatives.

Alongside the economic stimulus measures included in the Council of Ministers' Decree being implemented by the Committee, the Committee also submitted several additional proposals:



Higher Steering Committee for Economic Stimulus

- Formed by virtue of the Cabinet Resolution No. 455 passed in its meeting held on March 31, 2020.
- Launched on Wednesday, April 1, 2020.

Committee Responsibilities:



Implementation of the recommendations approved by the Cabinet.



Proposing the necessary measures to withstand the economic and social repercussions.

Objectives:



Prevent worsening the situation from a short-term liquidity crunch into a solvency crisis.



Prevent the repercussions of the crisis from affecting business continuity at both corporate and sector levels.

- Improving private sector labor market conditions through a proposed amendment to the labor law to facilitate agreement between employers and employees in economic entities to safeguard the institution concerned and protect employees. This shall be achieved through reaching middle ground on a basis of partnership in shouldering the impact of the crisis to see all parties through it with least damage possible.
- Supporting the national labor force in the private sector by doubling the value of national labor support for those registered under Chapter 3 (staff working at a firm). A total of 57,286 employees benefited from this support over a period of six months.
- Proposing the establishment of specialized courts in economic, finance, and commerce affairs to enable swift settlement and ruling in trade and investment disputes. This would restore rights and justice in more timely fashion. Such a system is in line with the most advanced international judiciary systems and legislation and one that would benefit the national economy and reflect positively on the state's economic reputation.
- Proposing remedies for the lease market state of affairs to uphold the rights of both property owners and tenants, where property owners are losing cash in-flow due to tenants' inability to pay the lease in view of compulsory suspension of activity and inability to generate revenue from the property. There are also costs of investment in leasing and refurbishing of properties that could accumulate to put a great burden on tenants who are repeatedly late in paying rent. The committee accordingly recommended a prohibition of eviction of tenants of commercial property over rent, and that tenants be given an extension of 90 days (extendable) without imposition of any penalty. It was also recommended that a judicial committee be formed, which would handle disputes put before it related to commercial leases in an expedient manner.



Local banks conference to confirm interest in national employment in the banking sector and localize jobs in this sector - September 2020

- Drafting a program to support and guarantee financing that would encourage the banking sector to extend financing, while at the same time protecting this vital sector against the brunt of the pandemic seen in other sectors in light of their interconnectedness. Based on the same principles and bases on which regional and international financing support and guarantees programs were founded, the committee developed a program that reconciles the legal requirements in Kuwait, the local economy, and estimates on needed financing for companies' working capital. The Committee also suggested the launch of a guarantee program as one procedure that targets both SMEs and larger firms. After deliberation on the proposal at the National Assembly and adding a few amendments, Law No. 2/2021 was issued concerning support of SMEs that had incurred damage due to the repercussions of the COVID-19 pandemic, passed on April 18, 2021.

Upholding the principle of transparency, the committee had regularly briefed the public on its activities through diverse media content and presentations (eight in total):

- Three presentations were delivered before the Council of Ministers.
- Two presentations were delivered before the National Assembly's Committee for Improving the Business Environment.
- Two press conferences were held.
- A presentation that highlighted the committee's efforts, followed by a discussion with relevant parties in a public session was organized by the National Assembly's Committee for Financial and Economic Affairs.

Supervisory Measures Launched by the Central Bank of Kuwait to counter the COVID-19 Pandemic

Goal:	Target:	Action:
<p>Supporting vital economic sectors and SMEs that add value to the local economy.</p>	<p>Giving additional flexibility to banks to provide liquidity to these sectors.</p>	<p>Easing regulatory requirements to further enable banks to fulfill their vital role towards productive sectors of the economy and affected clients</p>

Main Decisions

<p>Reducing capital adequacy requirements by 2.5%.</p>	<p>Reducing liquidity standard requirements.</p>
<p>Reducing SME risk weight from 75% to 25%.</p>	<p>Increasing the available financing maximum from 90% to 100%.</p>
<p>Increasing permitted property Loan-to-Value (LTV) financing.</p>	

Sixth: The Central Bank of Kuwait's Role as Advisor to the Government:

As per Article 15 of Law No. 32/1968, among the objectives of the CBK is "to render financial advice to the Government" and is within the mandate of the Central Bank of Kuwait. The CBK has continued to present studies and recommendations to the government on economic and financial affairs. On several occasions, the CBK has submitted its vision for comprehensive financial, economic, and

structural reform, which outlined the nature and size of imbalances suffered by the Kuwaiti economy. It has also expressed the dire need more reform and means to address the imbalances, short and long term. In addition, the CBK Governor has delivered a presentation to the National Assembly on these issues and reiterated the need to swiftly initiate reform. The Governor touched on the required



A meeting with with SME's the economic repercussions of the pandemic - National Assembly

cooperation between the legislative and executive authorities to that end. Furthermore, the Central Bank of Kuwait, represented by the Deputy Governor, joined the Economic Reform team, as per Council of Ministers Decree 1072/Third.

In light of changes in the State of Kuwait's credit rating, the Central Bank of Kuwait presented the government with extensive data and information concerning the factors behind the decline in Kuwait's credit rating. It also highlighted the consequences of this decline and its impact on the national economy, as well as steps necessary to improve the country's credit rating.

The Central Bank of Kuwait also took part in drafting several laws related to various economic and financial issues, and it participated in the committee charged with laying down the legislative and executive environment necessary for the restructuring of real estate financing; it took part in drafting the decree law on restructuring real estate financing (mortgage), and also participated in drafting Law No. 71/2020 on bankruptcy and its executive regulations.



The Governor addressing SME's the National Assembly

Moreover, the Central Bank of Kuwait prepared a draft law titled "Financial Stability, Bankruptcy, and Restructuring Local Banks". This law covers early intervention measures by the Central Bank to address unsound practices that could be followed by any bank, as well as

the measures that may be taken when a bank is faced with a threat that could compromise its financial position. It also touches upon Central Bank supervision and monitoring of bank restructuring and liquidation measures, where the special nature of banks' assets and liabilities could dictate that some or all activities be undertaken during the restructuring or liquidation phase.

The Central Bank of Kuwait also presented its position on several draft laws by MPs on economic, financial, monetary, and banking affairs. This included amendment of articles of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Law No. 106/2013, as well as a moratorium on consumer and housing loan payments; it also shared its opinion on the calls for citizens' debt write-off.

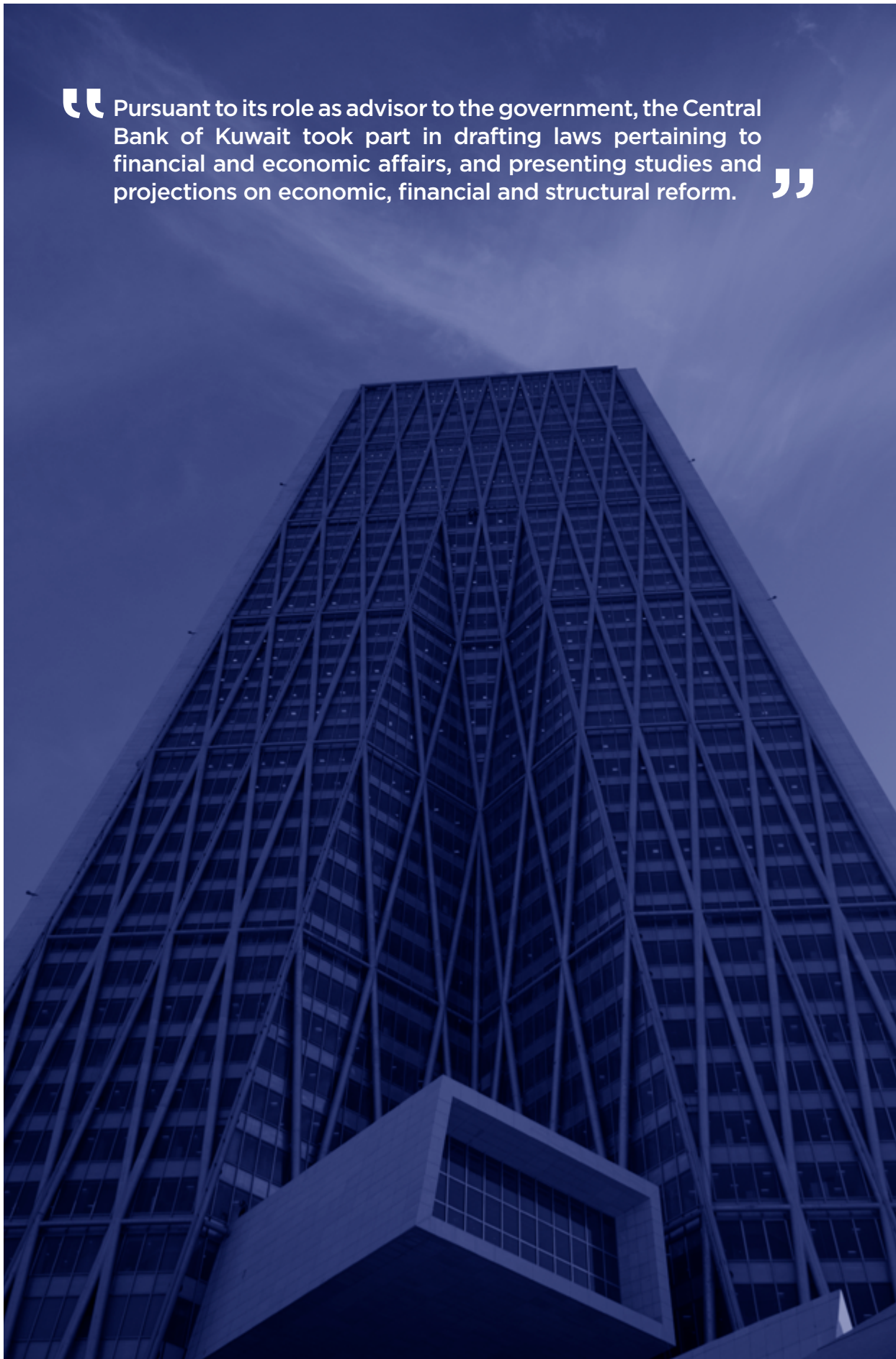
The Central Bank of Kuwait established a fund to support government efforts to confront COVID-19

Value	Objective	The beneficiary
10 Million KD	Support the urgent needs of the government in the face of COVID-19	The fund was placed at the disposal of the esteemed Cabinet.

Contributors to the fund



“ Pursuant to its role as advisor to the government, the Central Bank of Kuwait took part in drafting laws pertaining to financial and economic affairs, and presenting studies and projections on economic, financial and structural reform. ”



The Central Bank of Kuwait's Supervisory Efforts

First: Instructions, Circulars and Controls, Issued by the Central Bank of Kuwait to CBK-regulated Entities:



The Central Bank of Kuwait continues its close on-site and off-site monitoring of CBK-regulated entities and regulates their business through its instructions and controls. Most prominent recent guidelines are:

- Based on the six-month moratorium on all consumer and housing loans, as well as credit card payments, the CBK issued a memo that addresses deferment losses as per IFRS-9 and external auditors' reports. This was outlined as a deduction from retained equity earnings, provided used amounts from these earnings be re-accumulated. For calculating the capital base in accordance with Basel III regulations, banks may disregard impact of resolving losses incurred from the moratorium, as previously mentioned, at a rate of 25% per year, for a period of four years that extends from 2021 through 2024.
- Following the Cabinet approval of CBK regulations on financing to individuals, SMEs, and economic entities that have incurred losses due to the COVID-19 pandemic, the Bank issued a circular that addresses these regulations. Banks were also requested to apprise the CBK with state budget share of financing costs (interests and returns) on a quarterly basis, ensuring that the information submitted is reviewed by external auditors and signed by the bank's CEO.
- To follow-up with developments of financing provided to customers who have been impacted by the pandemic, the CBK issued a circular to all local banks, which outlines a requirement to submit a weekly statement on developments related to financing extended in line with the Council of Ministers' controls for financing extended to individuals, SMEs, and economic entities that have been affected by the pandemic.
- Stressing the principle of autonomy in the instructions pertaining to governance guidelines and systems in Kuwaiti banks, the CBK issued a circular on September 3, 2020, to all local banks. This circular stated that a resigned member of a local bank's board may not hold any executive post or membership in the board of any subsidiary or affiliate entity within the bank group. This was aimed to ensure the complete autonomy of the decisions of the members in a manner that prevents any possible conflict of interest.
- To strengthen the system for combatting financial crime, the CBK issued a circular to all exchange companies on June 9, 2020 regarding combating money laundering and financing of terrorism.
- Towards applying best security standards to bankcards, the CBK issued a circular to all Kuwaiti banks and electronic payment infrastructure providers (EPIPs) regarding Payment Card Industry Data Security Standard (PCI-DSS) certification of compliance. In the same vein, the bank issued a circular directed to all local banks and EPIPs regarding bankcard fraud. It requested that banks report cases of card fraud and place a visible icon on their electronic homepages to help customers report card fraud through the

approved mechanism set for that purpose, as well as to provide awareness content and material in this regard.

- For closer supervision of banks' purchase, selling, and administration of their own shares, the CBK issued a circular that obligates banks to submit weekly reports in this regard, as opposed to the previous

requirement of a quarterly report.

- The CBK issued a circular to Kuwaiti Islamic banks on November 24, 2020 regarding candidacy requests for Shari'ah supervisory authority membership and for the position of Shari'ah Internal Auditing Department Manager.

Second: Customer Protection

To consolidate CBK's supervisory role regarding the protection of individual customers' rights, a circular was issued to all local banks, branches of foreign banks, and to investment companies and finance companies operating in the State of Kuwait on January 19, 2011, requiring each to establish a unit dedicated to handling customer complaints. Another circular was issued to these entities on August 5, 2014, requiring they develop an automated system through which all complaint data presented electronically is to be logged.

Moreover, the CBK set up a mechanism for receipt of complaints and grievances against CBK-regulated entities in a manner that guarantees ease of filing and of addressing complaints. Below is an illustrated breakdown of said mechanism:



Mechanism for Filing Complaints against CBK-Regulated Entities

If the complaint is against one of the following entities:



Bank



Finance Company



Investment Company

(in regards to credit or financing operations)

Follow these steps:

- 1** Submit a written complaint to the concerned entity using the designated complaint form, made available by the entity. A dated note of receipt will be given to the customer.
- 2** The entity against which the complaint is made must provide the customer with said dated receipt as well as make a written response within 15 business days from the date of receiving the complaint.
- 3** Should the entity fail to reply, or if the customer is not satisfied with the reply, the customer may submit a grievance to the CBK, attaching a copy of the reply (if received) and other supporting documents.

Exchange Company

In case of a complaint against a CBK-regulated exchange company, the customer may visit the Banking Hall at the CBK building and submit a complaint through the designated forms, which could be obtained from reception staff.

Within the period from January 1, 2020, until December 31, 2020, the CBK Consumer Protection Unit received a total of 190 complaints and grievances. These were all reviewed and action was taken, be it mandating corrective measures by the entity against which the complaint is made, or declaring that the entity's actions and procedures were all correct and it is, therefore, not at fault.

Key CBK Banking Operations:

First: Currency in Circulation:

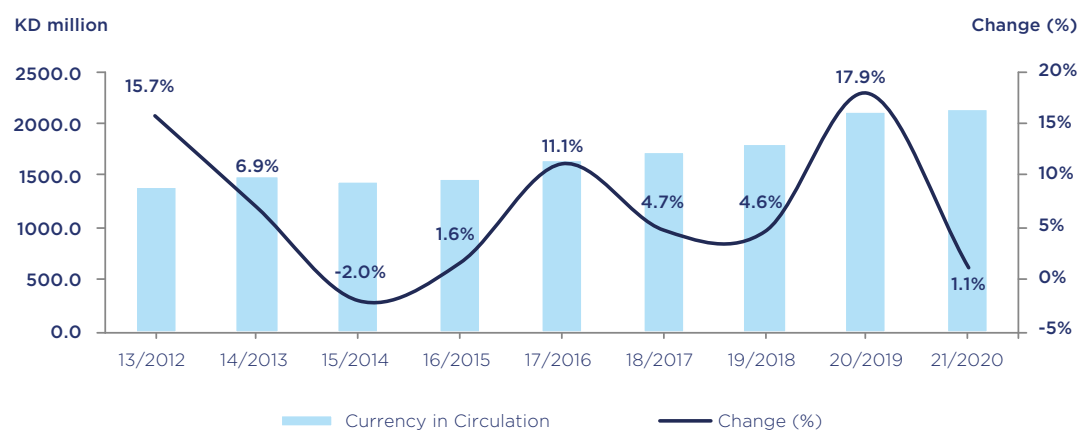
A. Balance of Currency in Circulation

Available data indicate that the value of currency in circulation at the end of FY 2020/2021 reached approximately KD 2,149.3 million, compared to approximately KD 2,125.5 million at the end of the previous fiscal year, which is an increase of KD 23.8 million, or 1.12%. The balance of currency in circulation for FY 2020/2021 fluctuated between:

- A peak of KD 2,428.059 million at the end of July 2020
- A lowest value of KD 2,125.496 million at the end of March 2020

Chart 5

Currency in Circulation Developments



Source: Central Bank of Kuwait

B. Quality of Banknotes in Circulation

The CBK continued its efforts aiming to guarantee the quality of banknotes in circulation, withdrawing and destroying banknotes that no longer meet the minimum

CBK quality requirements. It also continued to counter crimes of counterfeiting banknote in cooperation with other government bodies.

Second: Clearing and Settlement Operations between Local Banks

A. CBK Clearing Room Operations

The total value of transactions executed through the CBK Clearing Room for FY 2020/2021 dropped and came to approximately KD 13.3 billion with 2.01 million transactions (cheques) at an average value

of approximately KD 6,637.8. This compares to approximately KD 17.1 billion through 2.87 million transactions (cheques) averaging at KD 5,962.9 per transaction in FY 2019/2020.



Total value of CBK Clearing Room operations for FY 2020/2021 dropped, reaching approximately KD 13.3 billion.



Chart 6

Transactions processed by CBK Clearing Room



Source: Central Bank of Kuwait

Available data indicate that the value of settlement transactions between local banks through the Central Bank of Kuwait, executed through Kuwait's Automated Settlement System for Inter-Participant Payments

(KASSIP), reached approximately KD 264.32 billion for FY 2020/2021. This compares to a value of KD 356.02 billion the year before, which is a drop of KD 91.70 billion, or 25.7%.

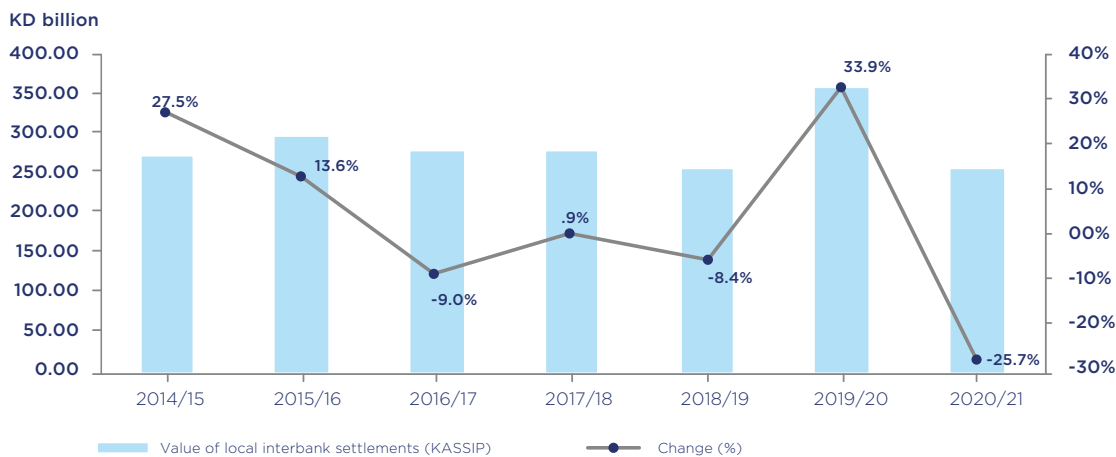


Value of settlement transactions between local banks decreased by KD 91.70 billion, or 25.7%.



Chart 7

Interbank Settlements (KASSIP)



Source: Central Bank of Kuwait

Third: Bank Transfers

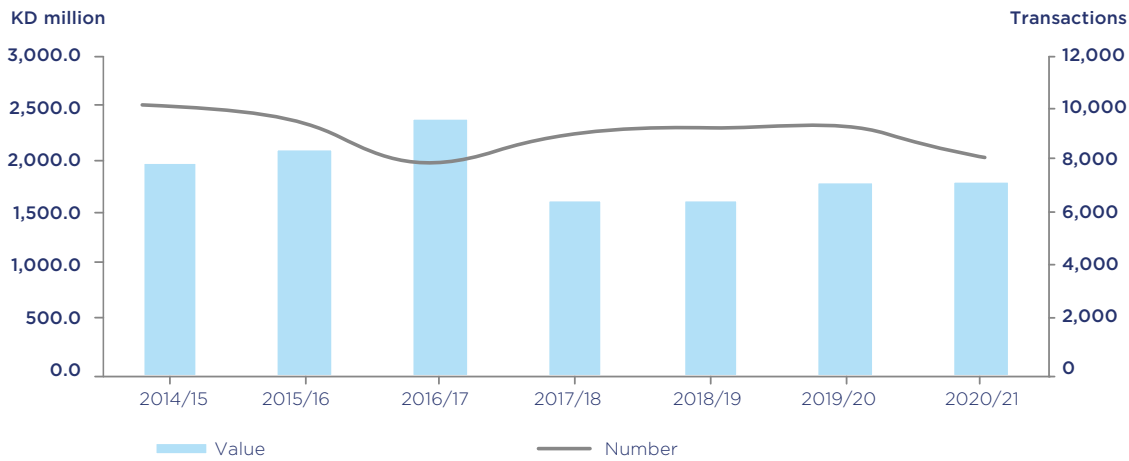
A. Local Bank Transfers

“
Total value of bank transfers executed locally during FY 2020/2021 increased by 0.1%.
 ”

During FY 2020/2021, the CBK executed 8,082 bank transfers to the accounts of ministries and other state institutions at a total value of approximately KD 1,760.4 million. This compares to 9,204 bank transfers valued at KD 1,758.6 million during the previous fiscal year.

Chart 8

Bank Transfers to Accounts of Ministries and State Institutions



Source: Central Bank of Kuwait



B- External Bank Transfers

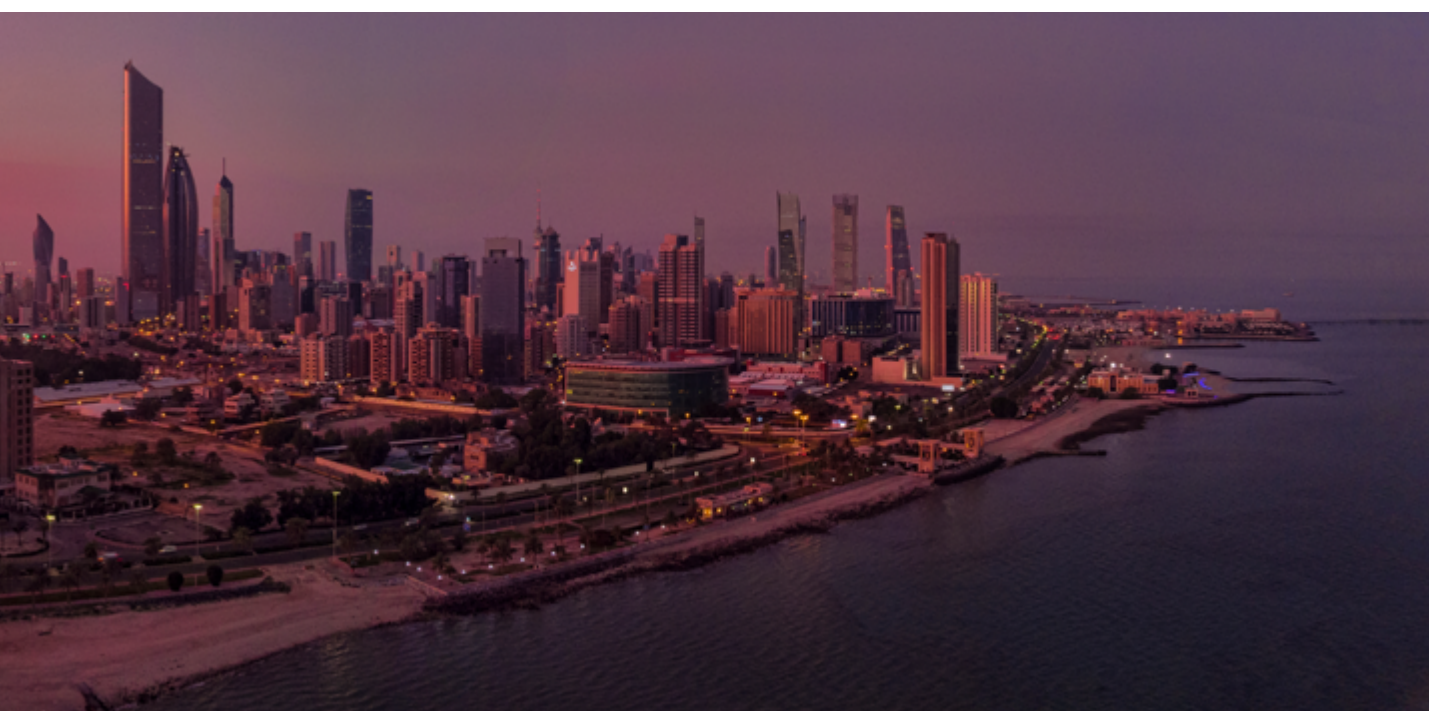
Regarding the external bank transfers executed by the CBK on behalf of ministries and state institutions, in the form of documentary credits, payable bills, and drafts during FY 2020/2021, the table below gives a detailed overview:

Table 2

External transactions Executed on Behalf of Ministries and State Institutions

Particulars	No.	Value (KD)
A. Documentary Credits:		
1. Opened		
- Local	1	1,249,327.20
- Foreign	10	8,234,736.359
Total	11	9,484,063.559
2. Paid		
- Local	6	1,298,510.00
- Foreign	71	330,349,288.184
Total	77	331,647,798.184
3. Amended		
- Local	5	-
- Foreign	19	-
Total	24	-

Source: Central Bank of Kuwait



IT Infrastructure Development

The CBK continued IT infrastructure development, supporting innovation, and making use of the latest technology, whether in bank operations or fields of operation of CBK-regulated entities. The Bank also continued its efforts to empower innovation in the banking sector, and to encourage the adoption of FinTech. It also strived to develop the infrastructure of electronic payments, including cross-border payments. At the forefront of the Bank's efforts lies the Kuwait National Payment System (KNPS), development of which the CBK hopes would yield an advanced and fully integrated infrastructure that can sustain

the digital economy. This project provides automated payment services as well as a safe environment that supports FinTech through eight advanced systems, which are:

1. Automated Clearing House System.
2. Wages Protection System.
3. Mobile Payment System
4. E-Bill Presentment and Payment System.
5. Dispute Management System.
6. Real-time Gross Settlement System.
7. Central Bank Digital Currency System.
8. Dashboard and Reporting System.

Components of the Kuwait National Payment System (KNPS)



Automated Clearing House System

Processes various payment flows, ranging from direct credit to cheque payments.



Wages Protection System

Allows companies and institutions to pay employee salaries through deposits in beneficiaries' accounts at a specified time, and presents reports in this regard to the Ministry of Social Affairs and Labor. It also establishes a database that provides a means for monitoring and supervision.



Mobile Payment System

Provides instant payment services to financial institutions, insurance companies, government entities, and money transfer service providers.



E-Bill Presentment and Payment System

This central billing mechanism allows customers to access their bills via their banks' electronic channels and facilitates online payment. This saves collection time and increases the ability to predict future cash flow volume.



Dispute Management System

Serves as a means to manage financial claims and disputes in a smart, secure, and flexible manner. It enables a quick digital resolution of claims and reduces reliance on paper documents, enhancing efficiency of data storage and recall, and ultimately lowering cost and narrowing the margin of human error.



Real-Time Gross Settlement System

This system allows real-time, high value money transfers in a range of currencies with enhanced control, liquidity management, and built-in instruments geared towards integration with external systems such as the general ledger, payment systems, and securities settlement systems.



Central Bank Digital Currency System

This system would be tasked with issuance of a digital CBK currency as an acceptable medium of exchange without any cost with high accuracy in implementation of monetary policies. It would also provide instantaneous information regarding exchanged currency volume and credit granted to various economic sectors.



Dashboard and Reporting System

This system provides an advanced means to collect data from various systems and present it through charts and summarized statistics to facilitate monitoring and reporting tasks for oversight, analysis and decision-making purposes.

To manage the Kuwait National Payment Systems Project and guarantee quality, an operations procedure document has been updated for Phase I systems, and a draft for a regulatory guidelines document has also been completed.

Additionally, the functionality and technology of the Real-Time Gross Settlement System has been fully tested. The system has also been linked with local banks and the CBK's and participating local banks' working teams have been trained on using the system.

Alongside the Gross Settlement System, the CBK also contributes to the development of the GCC Real Time Gross Settlement System (RTGS). The Bank contributed to the completion of the drafting and review of (RTGS) business and operation guidelines, as well as the examination of information security infrastructure and identification of its requirements, in addition to the examination of the technical infrastructure and linking the networks.

The Central Bank of Kuwait has also launched the second phase of the Governmental Electronic System for Banking Services in Foreign Currencies; it has finished preparing and floated a tender for implementation of Phase II of the system. The technical proposals received were assessed and the bidder with the best offer was contracted.

In regards to CBK's internal environment systems, the bank is currently developing a Data and Reports Analysis System. The CBK implemented and identified the HR dashboard performance indicators within the system so that it displays the number of staff and offers an analysis of HR composition in terms of gender, nationality, age, job title, sector, department, and unit, in addition to other classifications. This is aimed to enable development of CBK staff and of the Bank's HR policy in this regard based on a comprehensive understanding of all these indicators.

A re-engineering of the liquidity system operations' procedures has also been completed. The revamped liquidity system flaunts better tools for predicting developments in external factors affecting liquidity, virtue of the use of machine learning technology. The forecasts are presented through a dashboard specifically designed for this purpose. The Bank is also currently working on further development to enable the system to offer recommendations and present the best liquidity scenario possible.

Furthermore, the CBK is developing a budget expenditure report system for the IT sector. The sector is working on organizing the process of preparing reports related to its budget expenditure and on presenting expenditure data to upper management instantaneously, through a control panel, without any human intervention.

“

The Central Bank of Kuwait has continued to update its IT infrastructure and develop its systems to improve work efficiency

”



Empowering Innovation in the Banking Sector:

Keen to encourage FinTech innovation, the CBK provides a regulatory experimentation environment that allows for testing out innovations in a safe environment without compromising the financial system. During FY 2020/2021, the CBK received a number of innovative products and services to be tested and evaluated within the CBK sandbox framework. This was aimed to support innovative projects, both those reliant on e-payment and other products and services.

In regards to e-payment services, the CBK has taken all necessary steps to register 11 Electronic Payment Infrastructure Providers (EPIPs) and Electronic Payment Agents (EPAs) These parties have met all regulatory requirements for listing in the CBK EPIP and EPA register. All inspection and monitoring tasks stated in CBK instructions on organizing e-payment business have also been completed pertaining to a number of EPIPs who had been registered.

With the launch of the Mobile ID Application by the Public Authority for Civil Information (PACI), the CBK issued a circular to all CBK-regulated entities requiring them to take all steps necessary to recognize and use the application, in accordance with Council of Ministers Resolution 1/202 issued on April 20, 2020. The Bank also gave the approval to a number of banks to open accounts for new customers and offer banking products and services via electronic channels, utilizing the customer identity verification mechanism and obtaining the customer's data and electronic signature available through PACI.

To encourage local banks to utilize the latest

FinTech when offering financial services, the CBK gave an approval to several banks to offer direct customer service via Chatbot, a service solution based on Conversational Middleware with an Artificial Intelligence (AI) engine designed with integrated features enabling an interaction comparable to a human-to-human conversation.

The CBK also set controls for Point of Sale (POS) payments through digital wallets and gave its approval to a number of local banks, in 2020, to offer Apple Pay, FitBit Pay, Samsung Pay, and Garmin Pay services, in accordance to said controls.



In regards to exchange companies' activity, the CBK set electronic Know Your Customer (eKYC) controls for these companies and allowed for updating customer data available to and registered with the companies by means of linking with the Mobile ID App. Moreover, controls were also set for executing transfers for new customers through exchange companies' websites and mobile phone applications.



E-wallet payment controls, eKYC controls, and approvals for several financial institutions to offer e-payment services are a few examples of CBK efforts towards empowering innovation in the banking sector.



Shaping the Future:

Maintaining keen follow up on developments in the Kuwaiti banking sector, the CBK, in a circular issued on October 6, 2019, directed banking sector units to prepare a strategy for framing the future. The CBK then reviewed the plans presented and held several meetings with banks' CEOs and strategy teams. The banks gave presentations on their proposed strategies, and each bank was later given feedback that indicated CBK's main concerns and observations after assessing its proposal. Banks were advised as to the need for further development and review of their proposals in light of the impact of the COVID-19 pandemic. They were also requested to update the documents to reflect their future vision on means to counter any crisis the future might bring.



Part of the Central Bank of Kuwait FinTech exhibition held at the end of 2019.

The CBK also requested the Shared Electronic Banking Services Company (K-Net) to present a strategy for framing the future focused on countering future challenges and making use of technological advancements in the fields of banking and finance. K-Net accordingly submitted a strategy that is based on it operating as the main provider for the payment system in Kuwait through enhancing the company's current position and increasing its range of services and offering services that are new to the local market. Several initiatives aiming to increase service efficiency were presented. They involved utilizing new technology and AI and the latest FinTech applications to keep abreast with developments

in the field, as well as presenting new tools that enhance the company's cyber security capabilities in harmony with the Cyber Security Framework for the Banking Sector in the State of Kuwait.

Towards the same end, the CBK requested that Ci-Net prepare a strategy for 2020; the company presented the Bank with and gave a presentation. The strategy was discussed and the company was advised to address some observations and concerns/queries to secure CBK approval.



Shaping the future in the banking sector requires a wide range of skills and knowledge, therefore, the CBK requested that the Institute of Banking Studies (IBS) develop its strategy for the future to offer training courses that cater to these skills. This would guarantee the banking sector a national workforce highly qualified for future occupations, most prominently those in the fields of data science, Artificial Intelligence, and Machine Learning, in addition to other fields vital to the banking industry.

“The Central Bank of Kuwait led banking sector units, K-Net, Ci-Net, and IBS towards drawing up strategies to shape the future.”



Part of the Central Bank of Kuwait FinTech exhibition held at the end of 2019.

Governance and Organization:

First: Board of Directors:

The Central Bank of Kuwait's Board of Directors is made up of the Central Bank of Kuwait Governor, Chairman, a Deputy Governor, a representative from the Ministry of Finance, and a representative from the Ministry of Trade and Industry, in addition to four other members of expertise in economic affairs and in finance and banking. As per Article 26 of Law No. 32/1968 concerning Currency, the Central Bank of Kuwait, and the Regulation of Banking and its amendments, the CBK Board of Directors has the competence to draw up monetary and credit policies for the bank, determine discount rate, make decisions concerning banking activity regulatory and supervisory affairs, set internal controls for financial and administrative affairs, as well as set any other regulations it deems necessary for good management. Also within the Board's competence is to approve the Bank's annual budget, profit and loss account, and closing account.

In accordance with Law No. 32/1968, the Board of Directors must hold no less than eight meetings each year, and eight meetings were held during FY 2020/2021. During this year, two member changes occurred. Ministry of Trade and Commerce representative Mr. Abdullah Mohammed Al Afasi was replaced by Dr. Saleh AbdulMohsen Al-Aqely, and representative of the Ministry of Finance, Mr. Saleh Ahmed Al Saraawi, was meanwhile replaced by Ms. Aseel Sulaiman Al-Munifi, who became the first woman to serve on the CBK Board of Directors.



The CBK issued 143 decisions in FY 2020/2021; twelve were in passing, and 131 were issued during regular meetings. These decisions revolved around various banking and finance issues, aimed at achieving monetary and financial stability in the national economy, subsequently ensuring an environment that is conducive to the operation of CBK-regulated banking and finance units. Some of the decisions taken pertained to easing monetary policies, prudential monitoring policies, and financial stability. This all came within the framework of measures and procedures to mitigate the effects of the COVID-19 pandemic, specifically aimed at enhancing banks' financing capabilities, which serves as a protective barrier. This was all within the scope of CBK's mandate of maintaining monetary and financial stability.

Second: Financial Control Functions:



All activity within the Central Bank of Kuwait is subject to integrated financial control functions, exercised by more than one party, which includes previous and future financial control, and internal and external auditing policies that are characterized by complete autonomy, in accordance with the highest regulatory standards; it is comprised of:

1- Financial Supervisory Authority:

In accordance with Law No. 23/2015 regarding the establishment of a financial supervisory authority, there are two financial supervisors at the CBK who are appointed by the Authority, and they are in charge of financial supervision and pre-audit activity regarding the bank's

operations. The authority has not registered any note or violation on the Central Bank of Kuwait, up to FY 2019/2020; it has presented several recommendations that the Central Bank of Kuwait is studying to do the necessary and move forward with implementation.

2- State Audit Bureau:

The CBK is subject to the oversight of the State Audit Bureau, as per Article 14 of Law No. 32/1968. The CBK considers the State Audit Bureau an important reference when it comes to auditing its accounts and assets, studying remarks in the Bureau's annual reports and preparing the appropriate responses in that regard. The CBK then provides the State Audit Bureau with those comments. The State Audit Bureau has not issued a single violation to the CBK, up until FY 2019/2020, but has only made very few remarks regarding procedural aspects of daily activity. The CBK has responded to the remarks at the time, and offered its opinion in that regard.



3- Board of Directors Audit Committee:

In line with CBK's prioritizing of auditing autonomy, and the governance policies upheld by its Board of Directors, an Audit Committee was formed under the CBK Board of Directors on October 28, 2019. This Audit Committee comprises of three board members, and it oversees various responsibilities including supervising internal auditing activity. It also reviews and approves the scope of audit, ensuring the efficiency of internal control

systems, as well as oversee external audits, ensuring the coordination of activity of external auditors and of the Internal Audit Office. The Committee is also responsible for reviewing both internal and external audit reports, ensuring corrective measures are taken to address any observations raised in the reports. The formation of this committee comes in line with best practices in adopting governance standards.

4- Internal Audit Office at the Central Bank of Kuwait:

Internal auditing is one of the main foundations of an effective internal controls system. The Internal Audit Office was established soon upon CBK's commencement of activity in 1969. It sits under the umbrella of the CBK Board of Directors and is not subordinate to any executive department within the Bank. The office is tasked with financial and administrative audit for all bank operations, and with ensuring efficiency of all the systems and regulatory policies in place. It also exposes any deviations or violations that may occur and cooperates and coordinates with CBK's external auditors, the Financial Supervisory Authority, and the State Audit Bureau. The Office also conducts and updates studies regarding internal supervisory systems for CBK operations, ensuring these are implemented in sound manner and submitting regular reports on any gaps in implementation and presenting recommendations as to the means to address them. The Internal Audit Office



also reviews CBK's annual budget and its profit and loss account.

One of the main responsibilities of the Internal Audit Office is to audit all daily banking

activity, as well as to monitor daily control of account activity and to conduct both scheduled and unscheduled inventory to ensure that standards and procedures are upheld. It also monitors compliance of all CBK departments and offices with regulations, decisions, and instructions issued concerning administrative and financial organization within the Bank. The Internal Audit Office also oversees the inspection and assessment of adequacy and efficacy of CBK governance procedures, risk management process, and internal control systems as well as Bank performance efficiency.

It is important to note that the Internal Audit Office's operation mechanism is based on pre-audit of administrative and financial decisions of executive departments prior to issue. This is to ensure soundness and absence of any gaps or violations, before the decision is made rather than after. These audit reports are submitted to the Board of Directors for discussion during their meetings.

- Moreover, seeking further improvement and development of CBK internal control systems, which are supported by an autonomous Internal Audit Office, the Bank drew up an Internal Audit Charter in cooperation with a consulting firm. The charter includes principles the CBK chooses to uphold in view of the latest developments in international auditing standards, with the goal of emphasizing the role of the Internal Audit Office and enhancing

its performance efficiency. The Charter also stresses professional standards based on efficiency, auditors' maintaining professional conduct standards and their possession of necessary technical knowledge and skills. Furthermore, the Charter highlights internal audit tasks: providing confirmatory and consultancy services that aim to realize added value and enhance effectiveness of operations in an objective and independent manner. The Charter also states upon the Internal Audit Office Manager implementing a program for quality assurance and improvement through the review of activity on a regular and continual basis. The Office Manager is to submit review reports to the Board of Directors. This is aimed to enhance risk management operations, internal supervision systems, and governance mechanisms through an organized and precise methodology. Such methodology should ensure, at least, the following:

- Identifying, mitigating, and managing risk.
- Enforcing a mechanism to monitor implementation of corrective measures.
- Maintaining communication with all CBK departments and offices to spread awareness on the main risks and shortcomings in internal supervision policies.
- Informing the Board of Directors of all/any main risks/threats and inadequacies in internal supervisory activity.

5- External Auditing:

- In accordance with provisions of Article 49 of Law No. 32/1968 concerning Currency, the Central Bank of Kuwait, and the Regulation of Banking and its amendments, the Cabinet selects CBK's external auditors and determines their fees. CBK's accounts are to be audited by a certified external auditing firm.



Due to an integrated, precise, and multi-level financial control system, the Central Bank of Kuwait takes pride in the fact that all Audit Bureau and Financial Supervisory Authority reports on its business are completely clear of any citation of violation.



Third: The Central Bank of Kuwait's Budget:

When preparing its annual budget, the CBK takes great care to come up with an accurate estimation of requirements, as well as enhancing spending efficiency. To that end, the Budget Section follows a series of internal procedures that identify expected expenditure and revenue for the upcoming fiscal year. It also estimates the needs of various departments, and general requirements of the CBK premises, as well as costs for upcoming projects slated for the next

fiscal year. Moreover, it assesses revenues from funds deposited, through the Foreign Operations Department. The Budget Section estimates other revenue based on average earnings of the previous five years.

Following that, the Section drafts an estimated budget follows the set procedures for approval and submission to the Cabinet and the National Assembly, until it is finally passed by law.

The Central Bank of Kuwait did not exceed the approved budget for FY 2020/2021, and the savings in the three budget items reached about 6%.

Fourth: Risk Management:

The CBK implements specific and strict protocols to avoid risk in Bank business, financial or non-financial, through diversifying its currency portfolios and specifying the weight of each portfolio based on the Bank’s investment strategy and risk trends. It also carefully considers the geographical distribution of its assets and minimizes liquidity risk through deposit maturity distribution in a manner that meets its requirements in a timely fashion. The CBK also determines investment terms based on credit ratings, giving preference to short-term investments.

In order to mitigate operational risk, the CBK implements five stages to verify soundness of operations before they are executed. Two levels of checks go through the front office, one level is carried out at the middle office, and the last two levels of verification take place in the back office. This limits errors and mitigates operational risk.

The CBK also places great importance on the Cyber Threats and Information Security, following best practices implemented internationally in this field. This is done through a specialized Information Security unit that is



in accordance with ISO 27001:2013. The CBK implements policies, procedures, and standards based on the bank’s environment. It covers information classification, access control, change management, gap management, security awareness, the continuation of activity, and compliance checks.

In regards to the banking sector, the CBK published a cybersecurity framework for the banking sector in Kuwait, which all parties under the bank’s supervision must comply with. It also required all banks to obtain ISO 27001:2013 certification. Furthermore, the CBK is developing a platform to share information on cyber threats targeting the banking sector, as part of information exchange within the banking sector, and other sectors.

“ The Central Bank of Kuwait applies specific, precise, and strict measures to avoid risk, be it financial, operational, or cyber and information security related. ”



Meeting with local banks to discuss Return to Work protocols - May 2020

Fifth: Committee Work:

Decision-making methodology at the CBK is based on corporate principles whose central component is group work. In order to achieve the CBK’s objectives at a high level of efficiency and effectiveness within a framework of continuous self-monitoring, key business and recommendations in that regard are implemented by means of 11 specialized committees, which have held a total 173 meetings.

Table 3

Central Bank of Kuwait Committee Activity

	Committee
1	Supplies Committee
2	Scholarships, Training Courses, and Leaves of Study Committee
3	Employee/Personnel Affairs Committee
4	New Central Bank of Kuwait HQ Project Supervision, Follow-Up, and Execution Committee
5	Planning and Budgeting Committee
6	Loans Committee
7	Public Events Committee
8	Information Technology and Security Committee
9	Security and Safety Committee
10	Higher Committee for Emergencies
11	Disciplinary Board

Sixth: Legal Office:

The Legal Office plays a central role in ensuring the soundness of the CBK activity and its full compliance with law, by offering legal opinion regarding a activity. During the past year, 631 consults were offered in relation to Iftaa and contracts, as well as administrative investigations.

In addition, the Legal Office plays a pivotal role in preparing legislation related to CBK activity. For example, in FY2020/2021, Law No. 3/2020 was issued to amend some provisions of Law No. 32/1968. It also plays a role in economic and financial legislation, within the framework of the vital roles CBK plays, such as that of financial consultant to the government.

Moreover, the Legal Office contributed to several tasks alongside various CBK departments and offices, coordinating, for example, with the IT and banking operations

sector to prepare a draft for instructions to be given to those in the field and their agents regarding combatting money laundering and the financing of terror. It also took part in a study on the legal impact of precautionary measures taken to curb the spread of the COVID-19 pandemic on lease contracts in the residential and investment sectors. It later presented a document on means to counter pandemic repercussions for lease relationships in the State of Kuwait, seen from a legal perspective.

As for following up with lawsuits where the CBK is a party, and following the Legal Office’s submittal of defense memoranda in several of these cases, 18 final, incontestable verdicts came out in favor of the CBK. The necessary measures are being taken to enforce the rulings in coordination with the relevant enforcement departments at the Ministry of Justice.

Seventh: Disclosure and Transparency:

Disclosure and transparency are two vital aspects of governance. The CBK accordingly issues the following bulletins, reports, and data:

- A monthly statement on the CBK's assets and liabilities, which is submitted to the Minister of Finance and is also published in the official state gazette.
- An Annual Report covering CBK's activity, budget, profit/loss account for the year concerned, as well as an overview of monetary and banking affairs.
- The Explanatory Note to the closing account that the CBK submits to the National Assembly's Budgets Committee, which outlines aspects of monetary policy and supervisory policy, as well as other activity related to CBK's core business.
- An Economic Report, Financial Stability Report, and monthly/quarterly statistical bulletins and statements, which the Central Bank of Kuwait publishes on its website, covering annual achievements.
- Press releases and statements on CBK instructions and monetary policy instruments.

Organizational Structure:

The organizational structure of the Central Bank of Kuwait meets the requirements for defining goals, responsibilities and communication needed for issuing policies, regulations and procedures within an internal control framework system; it also meets governance requirements. Moreover, the Central Bank of

Kuwait works to develop its organizational structure according to the needs of the bank and helps to perform the tasks it is assigned. In this regard, the Central Bank of Kuwait established the Higher Committee of Shari'ah Supervision, and it also established the Center of Excellence, in accordance to the following:

First - The Higher Committee of Shari'ah Supervision:



A Shari'ah Supervisory Board meeting

In effort to strengthen the foundation of Islamic banking, and to increase confidence when dealing with Islamic banks with the intention to maintain financial stability in Kuwait, and in light of Law No. 3/2020 regarding the amendment of articles of Law No. 32/1968 Concerning Currency, the Central Bank of Kuwait, and Regulation of Banking, the Board of Directors decided to establish the Higher Committee of Shari'ah Supervision at the Central Bank of Kuwait. It identified the qualities required for committee membership, in order to recruit those with experience in the field of Islamic banking.

The Central Bank of Kuwait placed operational rules for the committee, including several standards that consolidate the principles of autonomy, objectivity, and transparency, while avoiding conflict of interest, and other matters that enhance the credibility

of the committee. A general secretariat was also established with Bank employees as its members, in order to facilitate and coordinate the committee's activities. The most important responsibilities of the Higher Committee of Shari'ah Supervision at the Central Bank of Kuwait are:

- Presenting opinion and counsel to the Central Bank of Kuwait regarding matters referred to it concerning Shari'ah conformity of the Central Bank of Kuwait's financial transactions with Islamic banks and financial institutions, as well as instructions issued to Islamic banks and financial institutions subject to Central Bank of Kuwait supervision.
- Proposing general Shari'ah guidelines for products and services offered by Islamic banks and financial institutions.

- Proposing guidelines and regulations organizing the business of Shari’ah supervision authorities, carrying out internal and external Shari’ah audits, and governing the activities related to Fatwa and Shari’ah supervision in Islamic banks and financial institutions.
- Pre-approving candidates for membership in Shari’ah Boards at Islamic banks and financial institutions.
- Issuing decisions where there is a disagreement between members of the Shari’ah Boards at Islamic banks and financial institutions, or where

such authorities fail to reach a definitive Shari’ah opinion on a matter put before them, which shall subsequently be referred to the Higher Committee of Shari’ah Supervision by the Board of Directors of the banks and financial institutions.

- Presenting Shari’ah-based opinions on matters referred to it by courts or arbitration centers relating to issues of Islamic banking and finance.
- Presenting opinions on any other matters referred to it, which are relevant to Islamic banking and finance, or to the affairs of units subject to the Central Bank of Kuwait’s supervision.

Up through March 25, 2021, the Committee held six meetings, and its most prominent activities during that period includes:

- Revising the approval mechanism for Kuwaiti Islamic banks assigning external Shari’ah audit offices, and reviewing the Kuwaiti Islamic banks application for external Shari’ah audit offices, which includes important conditions to be met by the external Shari’ah audit office in accordance with Central Bank of Kuwait requirements.
- Review of the curriculum of the certified Shari’ah auditor’s program, which was developed by the Central Bank of Kuwait and the Institute of Banking Studies, which it deemed appropriate for use as training material.
- Review of the mechanism of receiving and examining candidacy requests for membership positions in the Higher Committee of Shari’ah Supervision, as well as for the position of Internal Shari’ah Audit Department Manager. In this regard, a circular was issued to Kuwaiti Islamic banks on November 24, 2020. The Committee approved 23 candidates for Shari’ah Committee memberships, and for the position of Internal

Shari’ah Audit Department managers, at Kuwaiti Islamic Banks.

- Reviewing the standards of the control and distribution of Zakat in Islamic financial institutions, which is prepared by the Kuwaiti Zakat House. The Committee deemed the standards appropriate, leaving implementation to Shari’ah supervisory committees, based on its fatwas in this regard, considering that there is a difference in determining zakat percentages between the various sects in Islam.
- The Committee also shared its Shari’ah opinion on various topics related to financial transactions that take place between the Central Bank of Kuwait and Islamic banks and financial institutions. It proposed general Shari’ah guidelines for products and services offered by those entities. Also, it gave its opinion on legal cases concerning Islamic banking and financial activity that were referred to the Committee.



The Central Bank of Kuwait established the Higher Committee of Shari’ah Supervision, with the aim to consolidate Shari’ah governance supervision in Islamic financial institutions and banks.



Establishing the Higher Committee of Shari’ah Supervision at the Central Bank of Kuwait

Goals

**Consolidating Shari’ah governance supervision in Islamic financial institutions and banks.
Increasing Shari’ah compliance in the Islamic banking sector.**

Committee formation:

The Higher Committee of Shari’ah Supervision is comprised of experts in the field of Islamic jurisprudence, with Islamic banking experience, and they are:

- Dr. Essa Z. Shaqra (Chairman)
- Dr. Mostafa S. H. Al-Zelzelah (Member)
- Dr. Khaled M. Boodi (Member)
- Dr. Motlaq J. Al-Jaser (Member)

Second - Center of Excellence:

The Center of Excellence was established as part of the Central Bank of Kuwait's continuous efforts for organizational development. This comes as one example of leading change, promoting transformation efforts, building a

culture of excellence, increasing performance and output efficiency, and facilitating the flow of knowledge and exchange of expertise at the Central Bank of Kuwait. Its most important responsibilities include:

- Creating a productive environment that nurtures bank-wide excellence and innovation.
- Working as an open platform for excellence and innovation, while contributing to innovative administrative, creative and technical solutions to any work-related obstacles that may be faced.
- Striving to develop the efficiency of the operational management, performance management, and talent and competency management.
- Following-up and supporting the organizational, technical and digital transformation strategy in various organizational units at the Central Bank of Kuwait, as well as following-up with IT, automation and environmental finance developments.
- Receiving and reviewing suggestions and ideas submitted from employees, and offering feedback on these suggestions.



During the work of the Higher Steering Committee for Economic Stimulus, the Center of Excellence assumed the role of Economic Nerve Center, by acting as the link between the Committee Chairperson and the members, as well as between the various task forces and the external consultant. The Center of Excellence also acted as Secretary to the Committee's meetings, through the preparation of invitations, agendas, discussion points, minutes of meetings, and logistic preparations for these meetings.

“

By establishing the Center of Excellence, the Central Bank of Kuwait strives to create a work environment that is conducive to excellence, stimulates innovation, and encourages the exchange and development of ideas.

”

Culture of Excellence, Knowledge Transfer and Development of National Competencies

The Central Bank of Kuwait has been working diligently on spreading a culture of excellence, knowledge transfer and development, and raising production efficiency, within the organization. The Center of Excellence leads efforts aimed to promote these values, and to create a work environment that will allow these values to flourish. The most important steps taken by the Central Bank of Kuwait in this regard are:



Distinguished employees award ceremony for the year of 2020.

First - Strengthening Internal Communication:

With the aim of strengthening internal communication between all departments and employees at the Central Bank of Kuwait, “ambassadors” were selected from each department to facilitate inter-departmental communication, as well as communication

between offices. These ambassadors are also in charge of raising issues facing departments and offering solutions. An initiative was also presented to improve internal communication through videos that explain the responsibilities of each department.

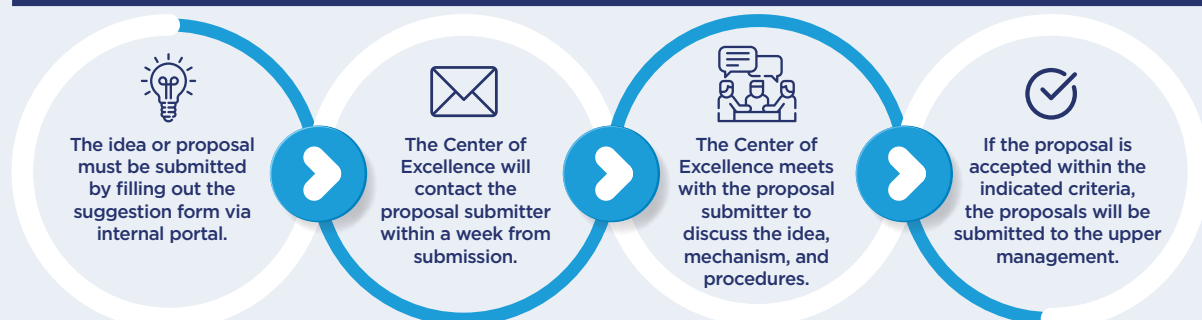
Second - Proposal Submission System:



The Central Bank of Kuwait believes in the importance of listening to all employee suggestions and ideas, as well as the need to

include all employees in its development and advancement efforts. This is the reason why the Central Bank of Kuwait opened a channel to receive employee suggestions, and to evaluate them, ahead of implementing the suggestions that contribute to work development. It also seeks to encourage employees to be proactive in improving the work environment.

The suggestions process



Third - Virtual Training Opportunities:

One of the positive developments brought upon by the COVID-19 pandemic is that most international institutions are eager to offer their training programs and lectures online. This serves as an alternative to traditional training, and facilitates attending these programs that are led by international lecturers and experts. The Center of Excellence works hard to provide information about such programs to Central Bank of Kuwait employees, which led to a large number of participants benefitting from these programs.



Fourth - Talent Retention:

While the Central Bank of Kuwait is keen to develop the talent of its employees and invest in its human capital, at the same time, it strives to retain that talent and provide them with the right environment where talent, skill and expertise will continue to serve the bank.

The Central Bank of Kuwait has a low turnover rate of 6%, compared to the 9% average at other central banks around the world. A talent retention system was developed, which includes a job satisfaction index, proposed succession plan for leadership positions, and an exit interview for employees seeking to resign, prior to resignation approval.

The Central Bank of Kuwait has a low turnover



Fifth - Nationalizing Jobs and Human Resource Development:

The Central Bank of Kuwait's employment policy is based on qualification, experience and merit, with an emphasis on attracting nationals. The recruitment process is based on the results of admission tests and personal interviews which are conducted by specialized committees.

The Central Bank of Kuwait also has an annual scholarship and practical training plan at well-established academic and training facilities, aimed at improving employee performance and attracting national talent. This increases performance at the Central Bank of Kuwait, and this section of the report outlines achievements in this field.



The Central Bank of Kuwait directs banks to increase the nationalization of leadership positions by no less than 70% in senior and middle management positions within a time frame before the end of 2023.



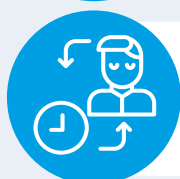
Apply the nationalization quota as set by the Cabinet, which amounts to 70%, on leadership positions as well, and not only the aggregate of all jobs.



Giving priority to appointing national talents to leadership positions, whether technical or administrative.



Training and qualifying national talents to occupy leadership positions.



The appointment of non-Kuwaitis to leadership positions to be for a limited period and is linked to the qualification of Kuwaiti cadres to fill those positions within the framework of career development plans and the required replacement.

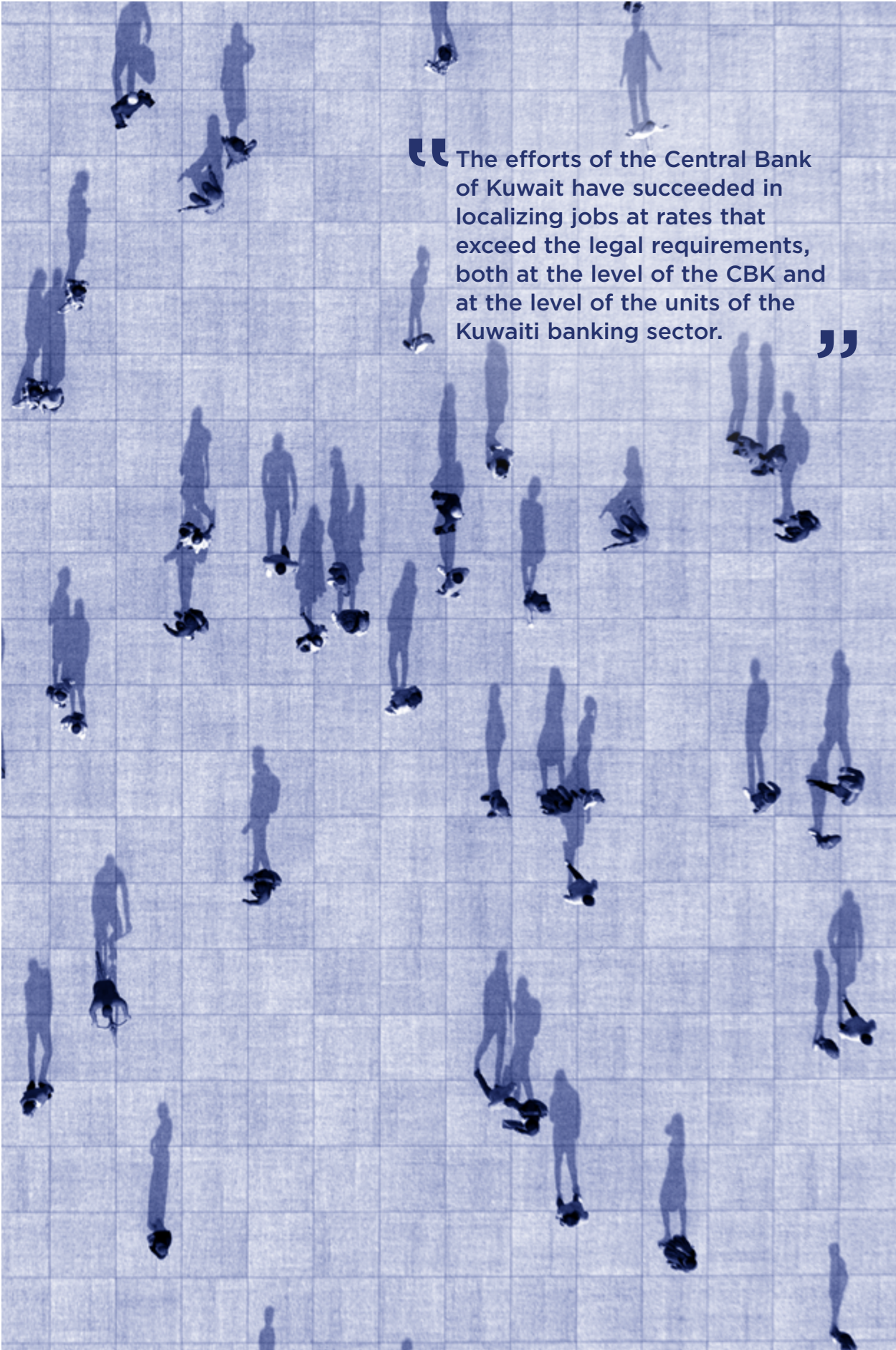
The Central Bank of Kuwait continued its implementation of the policy to nationalize jobs, which aims to increase the rate of the national workforce at the CBK until it covers all employees. At the end of the 2020/2021 fiscal year, a total of 956 employees worked at the Central Bank of Kuwait, with Kuwaitis making up 93%, or 889 employees, of that figure. This is an increase from the year prior, where national workforce was at 91.7%.

Efforts by the Central Bank of Kuwait to nationalize employment in the Kuwaiti banking sector also continued, with the CBK directing CEOs and human resource general managers at local banks to increase the presence of Kuwaitis in leadership positions, particularly since the sector succeeded in increasing the number of nationals in the field of banking, exceeding the required percentage as mandated by law. The banking sector is the largest employer of Kuwaitis in the private sector. The Central Bank of Kuwait emphasizes the need to qualify and train Kuwaitis to take over jobs at all levels of management, in addition to the need for opening the field to everyone and all specializations that the sector needs, while decreasing the need for specialized recruitment firms to fill the

employment void in the sector.

In regards to workforce development, the Central Bank of Kuwait planned and implemented training requirements for employees. Training was conducted virtually, due to health guidelines, in coordination with specialized training centers or expert lecturers. In total, 367 Central Bank of Kuwait employees took part in training programs, discussion panels, or workshops specialized in the banking, financial, economic or administrative fields, and technology. Ninety training programs were held over the 2020/2021 fiscal year. Three of these programs were specialized training programs for fresh graduates, of which three were subsequently hired at the Central Bank of Kuwait.

Moreover, during this year, three employees attended two professional certification programs, and in accordance with the rules that govern such matters, the Central Bank of Kuwait accepted one employee into its international scholarship program to continue their graduate studies. The Central Bank of Kuwait in the 2020/2021 fiscal year approved requests from four employees to continue their education outside of official work hours.



“ The efforts of the Central Bank of Kuwait have succeeded in localizing jobs at rates that exceed the legal requirements, both at the level of the CBK and at the level of the units of the Kuwaiti banking sector. ”

Central Bank of Kuwait Presence in International Institutions

First - Bank of International Settlements Membership:



The Central Bank of Kuwait joined the Bank of International Settlements in 2020,

which is a renowned international financial institute that was established in 1930. It is owned by central bank members, and aims to increase global cooperation, while conducting monetary and regulatory policy research and analysis. Headquartered in Basel, Switzerland, the BIS also provides banking services to central banks. Thirty percent of central banks are members of BIS, which in turn, comprise 95% of the global economy. All members have equal rights in voting and representation at Annual General Meetings. Through its membership, the Central Bank of Kuwait contributes to policymaking around the world, in addition to supporting global monetary and financial stability.

expertise with economists and banking policy architects from around the world, while benefitting from the lectures, research and programs conducted by global experts in this field, and held by the Bank of International Settlements.



BIS membership also allows Central Bank of Kuwait employees an opportunity to exchange

Second - International Monetary Fund:



During the 2020/2021 fiscal year, the State of Kuwait completed the requirements needed for the Enhanced General Data Dissemination System (e-GDDS), which was established by the IMF in May 2015 to guide countries in

data dissemination by supporting transparency, encouraging statistical development and helping create strong synergies between data dissemination and surveillance.

of joint cooperation between the Central Bank of Kuwait, Ministry of Finance and the Central Statistical Bureau. The Central Bank of Kuwait is planning to host the National Summary Data Page (NSDP) on its website, which will allow users to access data, view metadata, or browse links to online datasets for all available categories for a country. Publication of essential macroeconomic data through the NSDP will provide national policy makers and international stakeholders, including investors and rating agencies, with easy access to information critical for monitoring economic conditions and policies. This will allow users to have access to timely data and bring greater data transparency.

The Central Bank of Kuwait is the coordinator for e-GDDS on Kuwait at the IMF. This is the result

Kuwait completes the IMF's e-GDDS recommendations



A data portal that shares essential macroeconomic data and essential financial data.



Provides important information to national policy makers, as well as international investors and rating agencies.



Joint efforts between the Central Bank of Kuwait, the Ministry of Finance and the Central Statistical Bureau.

Third - GCC Committee of Governors of Monetary Institutions and Central Banks

Thought COVID-19 pandemic hit the world, the GCC Committee of Governors held its videoconference meetings to discuss the

economic developments and the mutual coordination to withstand the emerging challenges.

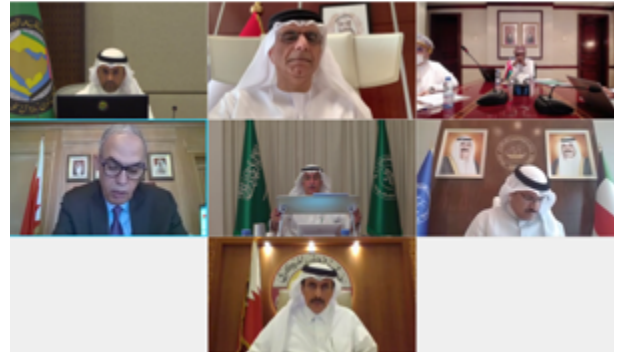
Fourth - Gulf Monetary Council (GMCO):



The Central Bank of Kuwait Governor heads the Gulf Monetary Council (GMCO), which was established in March 2010 and is based in Riyadh. It is a regional economic organization whose membership includes the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Qatar, and the State of Kuwait. The primary objectives of the GMCO include achieving monetary union among member states and issuance of a single currency; it also engages in economic research and statistics, and coordination of economic policies between Member States, as well as other tasks.

During the 2020/2021 fiscal year, the Supervisory and Monitoring Committee held three meetings

to discuss the COVID-19 pandemic, and means by which member central banks have faced the pandemic on a monetary, financial and economic front.



The 71st meeting of the Committee of Governors of Monetary Institutions and Central Banks

Fifth - International Islamic Liquidity Management Corporation (IILM):



The Central Bank of Kuwait Governor chaired the International Islamic Liquidity Management Corporation (IILM) Board of Directors, which is an international entity established in 2010 and is based in the Malaysian capital, Kuala Lumpur. It is comprised of central banks and a multilateral organization to create and issue Shari'ah compliant financial instruments to facilitate effective cross-border Islamic Liquidity Management.

IILM membership is made up of the central banks

of Kuwait, Indonesia, Luxembourg, Malaysia, Mauritius, Nigeria, Qatar, Turkey, the United Arab Emirates, as well as the Islamic Corporation for the Development of the Private Sector (ICD). The IILM has issued a series of 90 Shari'ah compliant financial instruments to Islamic financial service providers.

During the period of the Central Bank of Kuwait Governor's Chairmanship of the Board of Directors, the IILM reached the highest rate of regular sukuk offerings, with a rate of 35 sukuk issued at a value of 12 billion US dollars, and a record high of asset size at 3.51 billion US dollars.

Moreover, the IILM developed the Islamic financial sector through facilitating the management of Shari'ah compliant liquidity flow, across borders through regular short-term sukuk issuance.

Sixth - Islamic Financial Services Board (IFSB)



The Central Bank of Kuwait continued its vital role as a founder and effective member in IFSB to develop the Islamic banking. IFSB meetings were held only at the governors and specialized committee levels to discuss the coronavirus-induced challenges and variables.

Seventh - Praise from International Financial Institutions and Credit Rating Agencies:

In its report published on April 15, 2020, the IMF commended the Central Bank of Kuwait's sustained proactive monitoring of credit risks and efforts to strengthen the regulatory and supervisory frameworks aimed at bolstering

financial stability. Furthermore, it stated that "the banking sector remains well-capitalized and liquid, benefiting from the skillful regulatory oversight by the Central Bank of Kuwait and the strong buffers before entering the crisis".

International credit rating agencies shared the same perspective as the IMF on the Central Bank of Kuwait's role during the current period. Fitch credit ratings agency stated in its report dated February 11, 2021, that the Central Bank of Kuwait operates a strict regime with active monitoring to ensure the banking sector ratios of capital adequacy, profitability and liquidity, remain strong.

Meanwhile, Standard & Poor's drew attention to the exchange rate system at the Central Bank of Kuwait, and Moody's noted in its report dated April 1, 2021 that "the country's monetary management remains a source of institutional strength as illustrated by relatively low and stable inflation levels". It considered the regulations issued by the Central Bank of Kuwait to be strong and prudent in general, which is reflected in high capital adequacy in the banking sector, and the preemptive approach to implementing the international banking regulatory framework, including full implementation of Basel III requirements.

MOODY'S

22 September 2020

1 April 2021

"Regulation by the Central Bank of Kuwait (CBK) is generally strong and prudent, reflected in the high capital adequacy ratios in the banking system and a proactive approach to implementing international banking regulatory framework, including the full implementation of Basel III requirements."

FitchRatings

7 April 2020

11 February 2021

"Prudent and strict regulation by the Central Bank of Kuwait (CBK) has contributed to a well-capitalised, liquid and profitable banking sector."



15 April 2021

"We commend the central bank's sustained proactive monitoring of credit risks and efforts to strengthen the regulatory and supervisory frameworks aimed at bolstering financial stability. The banking sector remains resilient, well-capitalized, and liquid notwithstanding the shocks in 2020."

S&P Global Ratings

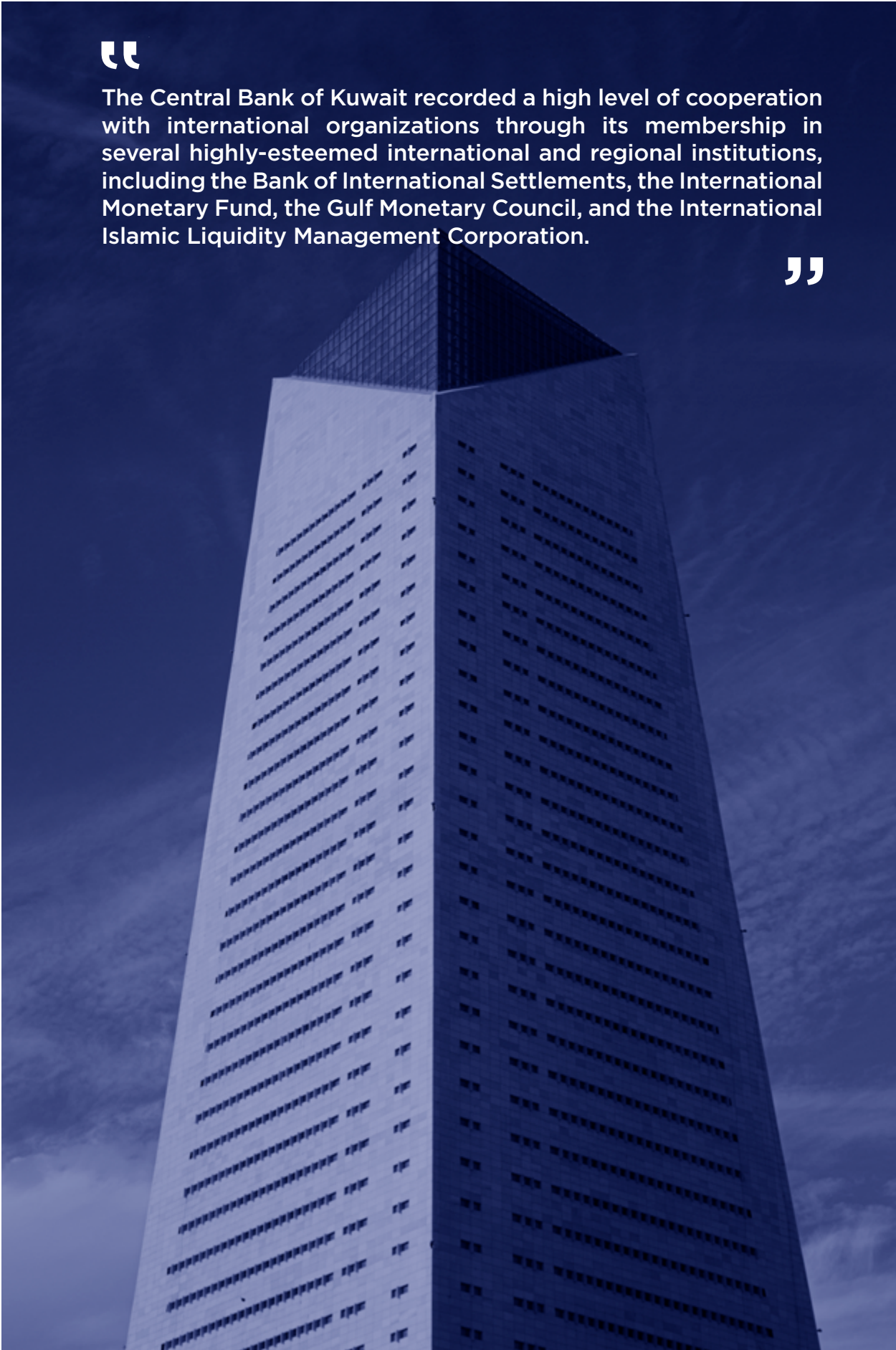
17 January 2020

"In our view, Kuwait's foreign exchange regime is somewhat more flexible than those in most other GCC countries that maintain a peg to the dollar alone."

“

The Central Bank of Kuwait recorded a high level of cooperation with international organizations through its membership in several highly-esteemed international and regional institutions, including the Bank of International Settlements, the International Monetary Fund, the Gulf Monetary Council, and the International Islamic Liquidity Management Corporation.

”



Communication and Social Responsibility Efforts

First - Communication Strategy During the COVID-19 Crisis:

During the COVID-19 pandemic, several challenges surfaced that required the need for effective communication with the public, while providing accurate information to curtail the spread of rumors and misinformation, as well as to reassure society about the continuation and strength of the banking system. Also, effective communication was required to guide the public on how to safely and effectively use banking services, and to do so, the Central Bank of Kuwait - through its Communications and Public Relations Department - implemented a communications strategy for emergencies and crises, which took two directions: external and internal.

External: Addressing the public through working to provide all statements, responses, launching awareness and educational campaigns, and reaching out to both local and international media.

Internal: Addressing CBK staff, since they are the foundation of the Bank's continuity in light of the pandemic, and decreasing the number of staff in the Central Bank of Kuwait building, working virtually, and restricting in-person communications and meetings. Also, the Central Bank of Kuwait maintained high levels of coordination with communication units within the banking sector, to ensure a swift and active exchange of information.

In order to achieve its strategic objectives of continuous active communication with the public, the Central Bank of Kuwait's Governor met with several local and international media outlets, such as Kuwait Television, Al Qabas Media Group, Al Arabiya TV, Global Finance, and The Banker, to present information and insight on the most prominent national economic issues. At the top of this list was the economic situation during the COVID-19 pandemic, and the resilience and stability of the banking sector during this time.

The Central Bank of Kuwait also maintained its presence in the media, both traditional and digital, through the publication of **89** press releases through local newspapers, Kuwait News Agency, and other news outlets, in order to keep the public updated on Central Bank of Kuwait announcements. Moreover, **314** posts were made on the Central Bank of Kuwait's social media accounts, including Twitter, Instagram, Facebook, LinkedIn, and YouTube. Lastly, **55** infographics in both English and Arabic were published, to keep the public updated on the latest developments and decisions made by the Central Bank of Kuwait, such as changes in discount rates, stress test results, and the establishment of the Higher Steering Committee for Economic Stimulus.

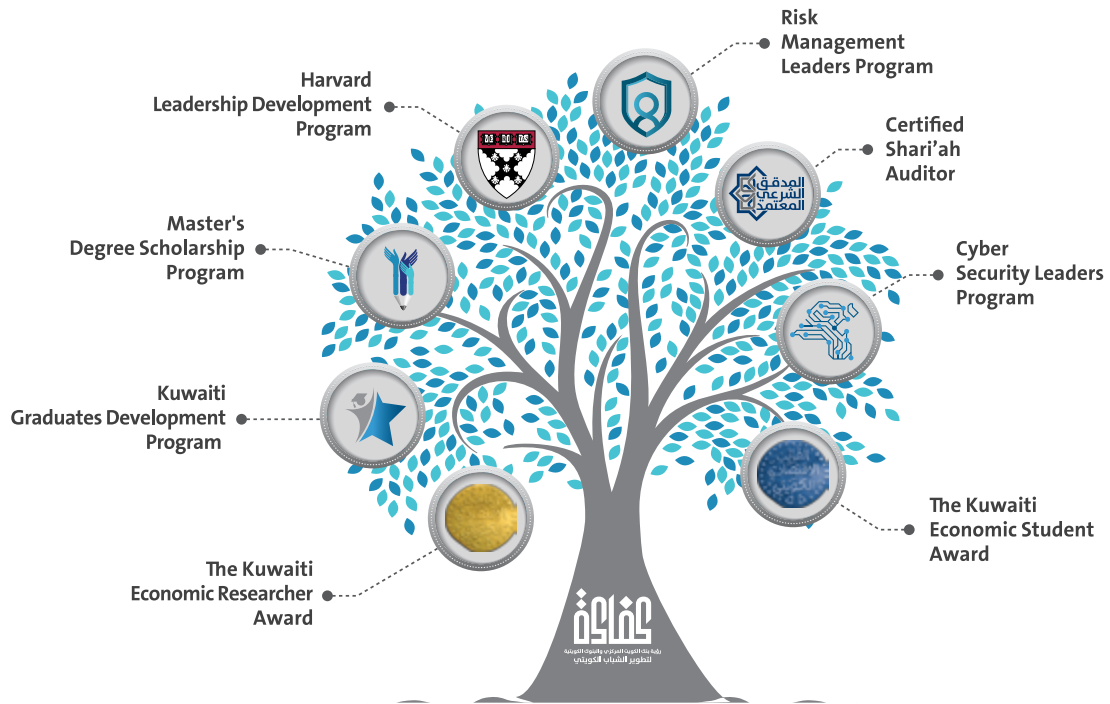


Second - Banking and Financial Awareness Efforts:

In line with increasing financial awareness in society, and according to the Central Bank of Kuwait's direction towards expanding and enforcing social responsibility in the Kuwaiti banking sector, the "Diraya" or "Be Aware" campaign was launched in coordination with Kuwaiti banks. This initiative aims to raise banking awareness with the largest

segment possible, while increasing the public's awareness on the banking sector, and the various services that are offered.

The campaign aims to enhance customers' awareness of their rights, which the Central Bank of Kuwait strives to protect through its regulatory instructions to the banking sector. One



of these rights, for example, is the customer's right to financing, whether from a traditional bank or an Islamic bank. Also, the campaign seeks to raise awareness on the rights of customers with disabilities; the Central Bank of Kuwait has instructed local banks to allocate at least one branch in each of the governorates to provide special services, such as facilities that take into consideration their disabilities, making it easier for clients with disabilities to access banking services.

The campaign also covers various topics, such as explaining the role of banks as financial mediators, the importance of saving and investment, and how to make use of the services offered by banks in this regard. Also, the campaign seeks to raise awareness on customer rights when receiving personal financing, whether for a personal, consumer or housing loan, as well as

the complaint process for banks. Moreover, the campaign draws attention to various forms of banking cards, and the main steps needed to be taken to avoid fraud, and raising awareness on the dangers of loan sharks and high-risk investments, and other important issues.

In addition to the various subjects covered by the campaign, various media outlets and channels were used to raise awareness. Awareness videos, press statements, and infographics were published through various media outlets, particularly digital channels. Also, Central Bank of Kuwait platforms were used, in addition to those belonging to the local banks and the Kuwait Banking Association; branches of local banks were also used to ensure maximum reach with the public to spread the message of the campaign.

Third - Kafa'a Initiative:



The Central Bank of Kuwait continued its strategic initiative, Kafa'a, which aims to build a highly capable national workforce in the fields of economy, banking, and finance. It aims to do this

while providing employees with the necessary knowledge and skills needed to develop the banking sector and enhance the national economy in Kuwait, through training highly-skilled human capital. The initiative's programs are catered to Kuwaitis employed in the finance and banking sector, as well as fresh graduates of finance and monetary specialization. The initiative covers a wide array of topics and the training is



Launch of the "Diraya" campaign press conference

mindful of global best practices, giving the trainees the skills and knowledge they need to work in this lively sector and carry their responsibilities at the highest level.

Kafa'a covers a range of fields, such as banking, data security, Shar'iah supervision, and graduate studies in the most elite universities around the world. Participants are chosen objectively, with the specific needs of the banking and finance sector in mind.

Until 2020/2021, the initiative's eight programs had graduated 826 people. To date, 69 participants are still benefiting from the Kafa'a program.



Launching the Kafa'a initiative at the International Banking Conference on Shaping the Future - September 2019

Fourth - Empowerment of Women at the Central Bank of Kuwait:



Gender equality and the empowerment of women are two topics that the Central Bank of Kuwait gives special attention to. This comes in accordance with Kuwait Vision 2035 for a New Kuwait, and the United Nations Sustainable Development Plan 2030, of which the fifth goal is gender equality and female empowerment.

While the Central Bank of Kuwait celebrates, for the first time in its history, the membership of a woman on its Board of Directors, it also shares one of the strongest examples of women's empowerment through 58% female workforce at the bank. Furthermore, 42% of leadership positions at the Central Bank of Kuwait are filled by women, compared to an average of 30% at regulatory and financial institutes worldwide. This demonstrates the belief that women have the ability to shoulder responsibility and achieve, which contributes to the institution's development. This is also proven through the number of

female employees at the Central Bank who are recipients of Awards of Excellence, where 57% of recipients are women. Similarly, the Central Bank of Kuwait is proud of its equal pay afforded to male and female employees. Taking into account the needs of employees at the Central Bank of Kuwait who are mothers, a "Motherhood Room" was created to cater to the needs of nursing mothers during the work day, providing them with privacy and comfort in accordance with appropriate health specifications; daily exemption periods are also granted to nursing mothers.



Fifth - Right to Access Information:

Law No. 12/2020 regarding the Right to Access Information aims to regulate the freedom of information rights, the right to access information in various domains, establish the principle of transparency and integrity in administrative and economic transactions, and implement the obligations emanating from international agreements, as this law is one of the matrices in international

anti-corruption measures. With the issuance of this law in September 2020, the Central Bank of Kuwait outlined guidelines and procedures to deal with such requests, and respond to them within a certain timeframe as designated by the law, in addition to preparing two guides for public information and confidential documents, respectively, that facilitate electronic information requests.



Sixth - Eidity Initiative:



In line with the Central Bank of Kuwait's strategy to enhance digital services and adopt updated technology in payment services and electronic

transfers, in order to provide flexible, safe and fast services, the second version of the Eidity (monetary gift) mobile application was launched. It is the first of its kind in the region, allowing users of all ages to send and receive Eidiyas electronically, with just a few fast and simple steps, in accordance with regulatory and security guidelines. A bank account is not needed to avail the service and receive the Eidiya, as an Eidiya can be sent to any registered mobile phone number within the State of Kuwait. The service also includes a series of benefits, such as tracking the Eidiya, where the sender can see confirmation when the amount is received by the recipient, sending messages, as well as cash and in-kind

incentives for both the sender and recipient. Between the period of May 23, 2020 and May 26, 2020, 51,000 transactions worth 1.9 million dinars were transferred through the mobile application.



CBK FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED 31 MARCH 2021

- Auditors' Report
- Balance Sheet as at 31 March 2021
- Profit & Loss Account for FY ended 31 March 2021
- Notes to the Financial Statements (31 March 2021)





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working world

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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

To the Governor and the Board of Directors of The Central Bank of Kuwait

Opinion

We have audited the financial statements of the Central Bank of Kuwait (the "Bank"), which comprise the statement of balance sheet as at 31 March 2021, the statement of profit and loss for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 March 2021, and its financial performance for the year then ended in accordance with the basis of preparation explained in Note 2 to the accompanying financial statements, and Law No. 32/1968, concerning currency, the Central Bank of Kuwait and the organization of banking business, and amendments thereto.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of preparation explained in Note 2 to the accompanying financial statements and Law No. 32/1968, concerning currency, the Central Bank of Kuwait and the organization of banking business, and amendments thereto, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

To The Governor and the Board of Directors of The Central Bank of Kuwait (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude



ABDULKARIM AL SAMDAN
LICENCE NO. 208 A
ERNST & YOUNG
(AL-AIBAN, AL-OSAIMI & PARTNERS)
10 May 2021
State of Kuwait



SAFI AL-MUTAWA
LICENCE NO. 138A
OF KPMG SAFI AL-MUTAWA & PARTNERS
MEMBER FIRM OF KPMG INTERNATIONAL

Balance Sheet as at 31 March 2021

(All amounts in KD)

Assets	Notes	31 March 2021	31 March 2020
Gold	2	31,742,157	31,742,157
Cash in hand, current and call accounts with banks and other financial institutions in foreign currencies		887,145,729	701,592,671
Deposits and investments in foreign currency	3	11,702,232,942	10,726,109,167
Other assets	4	<u>128,872,362</u>	<u>198,152,606</u>
Total Assets		<u>12,749,993,190</u>	<u>11,657,596,601</u>
Accounts managed by CBK on behalf of the Kuwaiti government and contra accounts	10	<u>4,393,889,057</u>	<u>5,451,475,597</u>

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

Balance Sheet as at 31 March 2021

(All amounts in KD)

Equity and Liabilities	Notes	31 March 2021	31 March 2020
Capital - fully paid up		5,000,000	5,000,000
General Reserve Fund	5	954,881,308	760,368,637
Special account	6	51,580,177	-
Profit for the year		21,823,755	194,512,671
Currency in circulation	7	2,149,324,656	2,125,495,495
Bonds issued by CBK	8	1,850,000,000	1,850,000,000
Government accounts		1,657,902,258	1,774,925,813
Local banks' current accounts and deposits with CBK	9	5,586,787,946	4,421,714,446
International institutions		56,918,851	102,474,990
Guarantees on documentary credits	10	288,134,718	284,725,662
Other liabilities	11	<u>127,639,521</u>	<u>138,378,887</u>
Total Equity and Liabilities		<u>12,749,993,190</u>	<u>11,657,596,601</u>
Accounts managed by CBK on behalf of the Kuwaiti government and contra accounts	10	<u>4,393,889,057</u>	<u>5,451,475,597</u>

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

Profit & Loss Account For the FY ended 31 March 2021

(All amounts in KD)

Items	Notes	31 March 2021	31 March 2020
Interest and income from investments		67,811,318	242,199,602
Interest and commissions expenses		<u>(45,815)</u>	<u>(102,160)</u>
		67,765,503	242,097,442
Other income		<u>821,368</u>	<u>770,409</u>
Operating income		68,586,871	242,867,851
Operating expenses	12	<u>(46,763,116)</u>	<u>(48,355,180)</u>
Net profit for the year		<u>21,823,755</u>	<u>194,512,671</u>
Appropriated in accordance with Article 17 of Law No. 32/1968 and amendments thereto, as follows:			
To the General Reserve Fund's Account	5	<u>21,823,755</u>	<u>194,512,671</u>

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

Notes to the Financial Statements (31 March 2021)

1. THE BANK'S ACTIVITIES:

The Central Bank of Kuwait (the "Bank") is a public institution with an independent juristic personality, incorporated in the State of Kuwait by Law No. 32/1968, and amendments thereto. The Bank is responsible for the issuance 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 the State of Kuwait.

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared in accordance with Law No. 32/1968, concerning currency, the Central Bank of Kuwait and the organisation of banking business and amendments thereto. The significant accounting policies adopted by the Bank are as follows:

- **Gold**

In accordance with the Amiri Decree issued on 4 July 1978, gold is valued at KD 12.500 per fine ounce and the fair value of gold amounted to KD 1,286,102,691 as of 31 March 2021.

- **Local bonds and government debt instruments**

Government debt instruments are recorded at their purchase cost.

- **Cost of money market transactions**

The costs 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

Costs of Intervention in the money market, in accordance with the agreement between the Bank and the Ministry of Finance (Note 4).

- **Revenue recognition**

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable.

- **Capital expenditure**

Capital expenditure is charged to operating expenses in the profit and loss account in the year of authorization.

- **Foreign currencies**

In accordance with Article 48 of Law No. 32/1968, and amendments thereto and the Amiri Decree issued on 4 July 1978, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting 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 2021	31 March 2020
Deposits with banks and foreign institutions	11,697,697,692	10,721,481,667
CBK Facilities to International Bank for Reconstruction and Development	4,535,250	4,627,500
	<u>11,702,232,942</u>	<u>10,726,109,167</u>

4. OTHER ASSETS (KD):

Items	31 March 2021	31 March 2020
Accrued interest on deposits and other assets	6,092,763	25,468,232
Investments denominated in Kuwaiti Dinars	50,228,544	50,228,544
Prepaid expenses	2,165,374	2,210,428
Other receivables	3,375,042	3,717,415
Ministry of Finance's - Transaction cost of Intervention in the money market (Note 2)*	67,010,639	83,723,057
Debit balances transferred from the Special Account on revaluation of monetary assets and liabilities denominated in foreign currencies (Note 6)**	-	<u>32,804,930</u>
	<u>128,872,362</u>	<u>198,152,606</u>

* The Ministry of Finance's - Transaction costs of Intervention in the money market transactions balance represents the amounts due from the Ministry of Finance after charging the cost to support the intervention in the money market to the Ministry of Finance.

** As per Article 48 of Law No. 32/1968, as amended, the Government shall absorb the Debit balances resulting from revaluation of monetary assets and liabilities denominated in foreign currencies, and subsequently those receivables were presented under "other assets" rather than "Special account "(note 6).

5. GENERAL RESERVE FUND:

In accordance with Article 17(3) (a) and (b) of Law No. 32/1968, 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 2021	31 March 2020
Balance at the beginning of the year	-	-
Net foreign currency translation difference from revaluation of monetary assets and liabilities denominated in foreign currencies	51,580,177	(32,804,930)
Debit balance transferred from the Special Account on revaluation of monetary assets and liabilities denominated in foreign currencies (Note 4)*	-	<u>32,804,930</u>
Balance at the end of the year	<u>51,580,177</u>	<u>-</u>

The special account represents 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. 32/1968 and amendments thereof, and the Amiri Decree issued on 4 July 1978.

7. CURRENCY IN CIRCULATION (KD):

Items	31 March 2021	31 March 2020
Net currency issued	3,413,035,790	2,699,581,990
Less: Currency in the CBK vaults	<u>(1,263,711,134)</u>	<u>(574,086,495)</u>
	<u>2,149,324,656</u>	<u>2,125,495,495</u>

- Net currency produced represents the total of currency printed, reduced by currency destroyed.
- Currency in CBK vaults is comprised of strategic inventory of notes, cash ready for use in the daily transactions (deposits and withdrawals) and unfit notes ready for destruction.
- On 19 April 2015, CBK has issued the resolution No. (37/405/2015) to withdraw all bank notes from the old banknotes issued against its nominal amount which could 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. BONDS ISSUED BY THE CENTRAL BANK OF KUWAIT:

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 local liquidity.

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

Items	31 March 2021	31 March 2020
Current accounts	3,022,898,428	1,797,279,707
Deposits	755,000,000	1,005,000,000
Tawarruq - (Takings)	<u>1,808,889,518</u>	<u>1,619,434,739</u>
	<u>5,586,787,946</u>	<u>4,421,714,446</u>

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

Items	31 March 2021	31 March 2020
(a) Accounts managed by CBK on behalf of the Kuwaiti government	1,437,015,224	2,573,812,340
(b) Contra accounts:		
Letter of Credit	2,954,017,794	2,874,799,092
Memorial Coins	<u>2,856,039</u>	<u>2,864,165</u>
	<u>2,956,873,833</u>	<u>2,877,663,257</u>
Collections According to Law No. 41/1993	<u>4,393,889,057</u>	<u>5,451,475,597</u>

As at 31 March 2021, the Bank held guarantees of KD 288,134,718 (31 March 2020: KD 284,725,662) against the letters of credit referred to the above.

11. OTHER LIABILITIES (KD):

Items	31 March 2021	31 March 2020
Accrued expenses	3,790,933	9,733,663
Other payables	123,848,588	<u>128,645,224</u>
	<u>127,639,521</u>	<u>138,378,887</u>

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

12. OPERATING EXPENSES (KD):

Items	31 March 2021	31 March 2020
Employee costs	34,924,352	33,959,351
Administrative and computer costs	6,617,605	7,722,658
Purchase of furniture and equipment	8,110	25,695
Production and shipment of currency	850,996	2,291,525
Sundry expenses	4,338,953	4,150,066
Construction costs	<u>23,100</u>	<u>205,885</u>
	<u>46,763,116</u>	<u>48,355,180</u>

13. PROMISSORY NOTES HELD:

On 31 March 2021, the amount of promissory notes that the Bank held in safe custody on behalf of International institutions was KD 626,423,594 (2020: KD 605,229,598).

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