بنك الكويت المركزي
CENTRAL BANK OF KUWAIT

THE THIRTY - SEVENTH

ANNUAL REPORT

FOR THE FISCAL YEAR 2008/09

The Annual Report of the Central Bank of Kuwait
for the Fiscal Year 2008/09

Introduction:

I am pleased to present this Thirty-Seventh Annual Report of the Central Bank of Kuwait (CBK) for Fiscal Year (FY) 2008/09, which provides a summary of the main activities carried out by CBK in the areas of monetary and banking affairs during this FY, including the most important instructions and supervisory regulations issued by CBK to the banking and financial units subject to its supervision, alongside the auditors report validating the financial statements of CBK which accurately represent the real financial position of CBK and its business results for FY 2008/09.

There is no doubt that FY 2008/09 stands out as a landmark period in the course of CBK activities, considering this year's events and challenges related to the impact of the heightening global financial and economic crisis and the significant reflections of those challenges on the local economic, monetary, and banking conditions since the beginning of the third quarter of FY 2008/09, as the crisis spread and transformed from a financial crisis into a global financial and economic crisis.

As the challenges of global economic and financial crisis appeared, the immediate concern of CBK has been to promote confidence in the national economy in general and reinforce the position of the banking sector units in particular, taking into account the pivotal role of this sector in the national economy. In this context, CBK took the initiative early on to steer the monetary and regulatory policies towards immunizing the domestic banking sector and strengthening the financial stability in the national economy by initially injecting significant amounts of liquidity into the units of the banking sector to strengthen their capacity to meet the financing needs of various sectors of the economy, and making unprecedented reductions in official interest rates to reduce the cost of credit in the domestic economy. CBK supported this stance by carrying out substantial changes in some controls governing bank credit, the most prominent of which are: raising the maximum credit facilities to deposits ratio from 80% to 85%, lifting the allowed growth rate of credit portfolios of banks in 2008 (by 5 percentage points for each bank), and reducing the ratio of KD customer deposits that local banks (conventional and Islamic) need to hold within the liquidity management requirements (in the form of balances with CBK, as well as Kuwaiti treasury bills and bonds, or short-term international 'murabaha' contracts, or sukuk, or any other financial instruments issued by CBK) in accordance with the maturity ladder to 18% from 20%.

Furthermore, the efforts to restore confidence and maintain competitiveness of the local banking sector included issuance of Law No. 30/2008 on 3rd of November 2008 concerning guarantee of local banks' deposits in the State of Kuwait. In tandem, the multiple dimensions of the global financial and economic crisis needed integrated efforts to reinforce the capabilities of various sectors of the Kuwaiti economy to confront the repercussions of this crisis, therefore, the Council of Ministers issued the resolution No. 1094/3 on 26th of October 2008 to set up an economic task force to encounter the effects of the global financial and economic crisis on the Kuwaiti economy, chaired by HE the Governor of CBK and made up of an experienced and specialized group of people from relevant public and private sector entities. CBK also formed a technical team to support the efforts of the economic task force. Decree Law No. 2/2009 concerning enhancing financial stability in the State of Kuwait was issued on 26th of March 2009. Its executive bylaws was issued on 2nd of April 2009, including preemptive and precautionary measures. This represents yet another step among government efforts to confront different dimensions of the implications and repercussions of the global financial and economic crisis on the domestic economic situation.

Also, CBK has intensified its efforts in the area of supervision and oversight of local banking and financial system units during FY 2008/09 to contribute to the consolidation of financial stability in the country through enhancing soundness and safety of financial positions of the local banking and financial system units, and increasing the efficiency and capacity of these units to deal with the latest local and global developments. These efforts included off-site follow-up and on-site inspection, more precautionary and prudential measures taken to verify the application of sound professional practices and the adherence to policies, programs and supervisory instructions, as well as continuous development of these supervisory policies and programs to keep pace with best international practices in this field.

On the other hand, CBK has continued during FY 2008/09 its efforts to develop programs and systems related to information technology, and introduce new systems to keep pace with technical developments in order to increase performance efficiency in its various departments and offices. During FY 2008/09, several tests were conducted on the "Banking Unit System", a parallel operation run was carried out on the "Advanced Time Series System", and work on the implementation of both the "Electronic Banking Services System" and the "Cheques Reading System" proceeded.

Various CBK efforts during FY 2008/09 were based on the continued pursuit of efficiency development of its manpower to upgrade their intellectual and professional standard so as to enhance CBK capabilities to carry out its assigned tasks. In addition, CBK has continued its efforts during this FY, as part of its keenness to provide reliable information and accurate data to the public, to prepare and issue its periodic statistical bulletins and various reports in both Arabic and English languages, and update the contents of its home page on the world-wide web.

In closing, we pray the Almighty to grant success to our efforts and endeavors for achieving the good of our beloved homeland, its prosperity and progress under the patronage of His Highness the Amir, Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, may God save him, His Highness the Crown Prince, Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, may God protect him, and His Highness the Prime Minister Sheikh Naser Mohammed Al-Ahmed Al-Sabah, may God guide him.

Salem Abdulaziz Al-Sabah
Governor of the Central Bank of Kuwait

First- Key Developments in Monetary Policy and Monetary and Banking Indicators:

This section of the report highlights the monetary and banking developments during FY 2008/09 as part of Central Bank of Kuwait (CBK) efforts during this FY in the fields related to designing and implementing the monetary policy, and the supervision and control over the banking system units under its supervision, in a manner that reflects CBK's desire to act in time using available tools to keep up with the latest local, regional and global developments, and deal with their impact on local monetary and banking conditions in particular, and local economic conditions in general.

In this regard, FY 2008/09 is considered a turning point in the march of the national economy in general and in the local banking and financial sector in particular. This reflects the events and developments associated with the aggravation of the challenges pertaining to the global financial and economic crisis since the third quarter of FY 2008/09 and the spread of its significant repercussions to various countries in the world. Consequently, there was an urgent need to reduce the impact of the repercussions of the crisis on the financial stability in the country. CBK took the initiative early on with successive steps to steer the monetary and supervisory policies towards strengthening confidence and countering the panic that appeared in some aspects of the local economy in order to consolidate financial stability in the country.

CBK efforts in this field were reflected in the developments of the country's major monetary and banking variables and aggregates during FY 2008/09. Therefore, it may be useful when reviewing the monetary and banking developments in the State of Kuwait during FY 2008/09, to distinguish between two basic periods. First is the period prior to the emergence of the challenges of the global financial and economic crisis, representing the first half (April - September 2008) of FY 2008/09, and second is the period following the aggravation of the global financial and economic crisis during the second half (October 2008 - March 2009) of FY 2008/09. These developments will be presented in the next sections of the report as follows:

1- Monetary Developments:

A- Money Supply:

Money Supply in its broad definition (M2) reached KD 24862.1 million at end of FY 2008/09, against KD 20393.5 million at end of FY 2007/08, i.e. an increase by KD 4468.6 million or 21.9%, compared to an increase of KD 3263.4 million or 19.1% during the previous FY. A large portion (77.2%) of this total growth in money supply was concentrated in the second half (October 2008 – March 2009) of FY 2008/09, which reflects the impact of CBK efforts in alleviating the impact of the global financial and economic crisis on the monetary and banking conditions in the country.

During April – September 2008 of FY 2008/09, and as part of the continuous efforts at that time to reduce the excessive acceleration in growth rates of local credit, Money Supply in its broad definition (M2) recorded an increase by KD 1020.8 million or 5% to reach KD 21414.4 million at end of September 2008, compared to KD 20393.5 million at end of March 2008. Money Supply (M2) recorded an increase by KD 3263.4 million or 19.1% during FY 2007/08 as mentioned earlier. This rise in money supply during the first half of FY 2008/09 was an outcome of the increase in Quasi-money by KD 1140.6 million or 7.3% (from KD 15537.2 million to KD 16677.8 million) on the one hand, and the decline in Money (the narrow definition of Money Supply M1) by KD 119.7 million or 2.5% (from KD 4856.3 million to KD 4736.6 million) on the other hand.

Money Supply Developments
(KD Million)

End of Period	**Mar. 2008 (1)**	**Sep. 2008 (2)**	**Change (2)-(1)**		**Mar. 2009 (3)**	**Change (3)-(2)**	
			Value	**%**		**Value**	**%**
Money Supply (M2)	**20393.5**	**21414.4**	**1020.8**	**5.0**	**24862.1**	**3447.7**	**16.1**
Money (M1) of which:	4856.3	4736.6	-119.7	-2.5	4695.1	-41.5	-0.9
Sight Deposits	4190.5	4000.5	-190.0	-4.5	3952.6	-47.9	-1.2
Quasi Money	15537.2	16677.8	1140.6	7.3	20167.0	3489.2	20.9
Deposits in KD	13921.1	14885.8	964.7	6.9	17085.3	2199.5	14.8
Deposits in FC	1616.1	1792.0	175.9	10.9	3081.7	1289.7	72.0

In the monetary survey of CBK and local banks*, the factors affecting changes in Money Supply (M2) during the period April-September 2008 indicate that growth in Money Supply in its broad definition (M2) was an outcome of the increase in net domestic assets of the mentioned institutions by KD 1042.7 million or 6.8%, in the one hand, and the decrease in their net foreign assets by KD 21.8 million or 0.4% on the other.

* All commercial banks, including branches of foreign banks, and banks that operate in accordance with the provisions of Islamic Sharia, in addition to a specialized bank (the Industrial Bank of Kuwait).

During the period October 2008 - March 2009 of FY 2008/09, and as a reflection of CBK efforts to steer the monetary and regulatory policies against the repercussions of the global financial crisis, Money Supply in its broad definition (M2) witnessed a notable increase by KD 3447.7 million or 16.1% to reach KD 24862.1 million at end of the mentioned FY, compared to KD 21414.4 million at end of September 2008. The increase in Money Supply was a result of the increase in Quasi Money by KD 3489.2 million or 20.9% (from KD 16677.8 million to KD 20167 million), on the one hand, and the decrease in Money (the narrow definition of Money Supply M1) by KD 41.5 million or 0.9% (from KD 4736.6 million to KD 4695.1 million) on the other.

In the monetary survey of CBK and local banks, the factors affecting changes in Money Supply (M2) during the period October 2008 – March 2009 of FY 2008/09 indicate that the mentioned increase in Money Supply in its broad definition (M2) by KD 3447.7 million or 16.1% was an outcome of the increase in net foreign assets of these institutions by KD 4242.7 million or 84.8% on the one hand, and the decrease in their net domestic assets by KD 795 million or 4.8% on the other. This rise in net foreign assets was due to the increase in both net foreign assets of local banks by KD 2714.1 million or 165.5%, and net foreign assets of CBK by KD 1528.6 million or 45.4%. The decline mentioned in net domestic assets during the period October 2008 – March 2009 of FY 2008/09 was an outcome of the increase in both net other liabilities of CBK and local banks (by KD 1082.5 million or 15.1%), and the government accounts with CBK and its local bank deposits (totaling KD 695 million or 20.9%) on the one hand, and the increase in local bank claims on the private sector by KD 986.9 million or 4% on the other.

B- Domestic Interest Rates:

CBK kept its interest rates during the first half of FY 2008/09 unchanged as part of the its efforts in that period to reduce the overheating of domestic demand, noting that international interest rates during that period tended to decline. In the light of rapid developments witnessed by the economic, monetary and banking conditions in the local and international arenas as of early October 2008, CBK took successive actions and steps to strengthen the pillars of confidence and enhance the capacity of national economic sectors to face the potential impact of the repercussions of global economic and financial crisis. One of the most prominent actions and steps taken by CBK was the unprecedented cuts in the cost of borrowing in the local economy, thereby providing more room for local banks to do its part in providing the funding requirements to the various local economic sectors.

Within this context, CBK made unprecedented significant reduction in the discount rate by 125 basis points (from 5.75% to 4.50%) as of 8th of October 2008. Subsequently, CBK made another cut in the discount rate by 25 basis points (from 4.5% to 4.25%) as of 30th of October 2008, followed by a third cut by 50 basis points (from 4.25% to 3.75%) as of 17th of December 2008. Thus, CBK made three cuts in the discount rate by a total of 200 basis points during the period October 2008 - March 2009 of FY 2008/09, leaving the discount rate at 3.75% at end of this FY, against 5.75% at end of the previous FY 2007/08.

Worth noting is that the discount rate is considered a pivotal rate to which are linked, within specified margins, maximum limits of interest rates on KD-lending transactions at the local banking and financial system units. Accordingly, reducing discount rate at CBK leads to a reduction of the maximum limits of interest rates on KD-lending transactions at the local banking and financial system units by the same amount of that reduction.

Within this context, interest rates on customers’ KD time deposits with local banks during the period April - September 2008 of FY 2008/09 witnessed a decline compared to the pervious FY. Specifically, interest rates on customers’ KD time deposits with local banks on one-month maturity and three-month maturity have decreased to 3.41%, and 3.573% respectively during the mentioned period, against 4.507% and 4.646% for the two mentioned terms respectively during the previous FY. These rates have continued to decline significantly during the second half of FY 2008/09 to reach 2.287% and 2.45% on average for one-month maturity and three-month maturity respectively.

On the other hand, interest rates on customers' US dollar time deposits with local banks on one-month maturity and three-month maturity witnessed a decline during the period April - September 2008 of FY 2008/09 to reach 2.075% and 2.216% respectively, against 4.182% and 4.233% for the two mentioned terms respectively during the previous FY. These averages continued to decline during the period October 2008 – March 2009 of FY 2008/09 to reach 1.233% and 1.636% for one-month maturity and three-month maturity respectively.

In the light of that, the margin between the average interest rates on both KD and US dollar deposits for one-month maturity and three-month maturity during the first half of FY 2008/09 reached 1.335% and 1.357% respectively, in favor of KD deposits. Then, that margin in favor of KD tended to decrease to reach 1.054% and 0.814% for one-month maturity and three-month maturity deposits respectively during the second half of FY 2008/09.

In the same direction, the average interest rates on local interbank KD deposits witnessed a decline during the first half of FY 2008/09 to reach 2.268% for one-month maturity and 2.512% for three-month maturity, compared to 3.821% and 4.069% for the two terms respectively during the previous FY. During the second half of FY 2008/09, and with the exacerbation of the global financial crisis, these averages rose to reach 2.794% for one-month maturity and 3.063% for three-month maturity.

The average interest rates on public debt instruments witnessed a decline during the period April – September 2008 of FY 2008/09, as the average interest rate on one-year treasury bonds recorded a decrease from 4.65% during FY 2007/08 to 1.917% during the mentioned period, while it reached 2.157% during the period October 2008 – March 2009 of FY 2008/09.

C- The KD Exchange Rate:

During FY 2008/09, CBK continued to apply the KD exchange rate policy that was in effect since 20 May 2007, based on pegging the Kuwaiti dinar to a special weighted basket of currencies of countries that have significant trade and financial relations with the State of Kuwait. In view of the relative flexibility offered by the system of currency basket in drawing and executing the monetary policy, CBK has continued its efforts in this area to maintain the purchasing power of the national currency and consolidate the foundations of monetary stability in the country, so as to limit the impact of sharp fluctuations that may occur sometimes in the exchange rates of major currencies, thus curb the imported inflationary pressures associated with exchange rate developments of world currencies.

Worth noting is that the average exchange rate of the US dollar against KD reached 272.917 fils during FY 2008/09, against 280.02 fils during the previous FY, i.e. a decline by 7.1 fils or 2.5%. The difference between the highest (293.85 fils) and the lowest (264.75 fils) exchange rates of the US dollar against KD during FY 2008/09 reached 11%, whereas the exchange rates of the US dollar fluctuated against other major currencies during FY 2008/09. The difference between the highest and the lowest exchange rates of the US Dollar reached 46.7% against the Pound Sterling, 33.9% against the Swiss Franc, 28.3% against the Euro, and 26% against the Japanese Yen.

Developments in the US Dollar Exchange Rate against the KD and Some Major Currencies

Item	2007/08			2008/09		
	Highest Price	Lowest Price	Change (%)	Highest Price	Lowest Price	Change (%)
Kuwaiti Dinar (fils/Dollar)	289.14	265.30	9.0	293.85	264.75	11.0
Pound Sterling/Dollar	0.5148	0.4770	7.9	0.7321	0.4992	46.7
Euro/Dollar	0.7519	0.6314	19.1	08023	0.6254	28.3
Franc/Dollar	1.2438	0.9769	27.3	1.3327	0.9951	33.9
Japanese Yen/Dollar	123.88	97.125	27.5	110.505	87.685	26.0

D- Banking Credit:

Balances of the utilized cash portion of credit facilities extended by local banks to the various economic sectors during the period April – September 2008 of FY 2008/09 witnessed a rise of KD 1695.1 million or 7.9% to reach KD 23054.6 million at end of the period, compared to KD 21359.5 million at end of FY 2007/08. The balances of credit facilities recorded a rise by KD 979 million or 5.5% during the corresponding period (April – September 2007) of FY 2007/08. This rise in credit facilities during the period April – September 2008 was an outcome of the rise in credit facilities to the Personal Facilities sector (by KD 561.4 million or 7.8%), the Trade sector (by KD 270.4 million or 14.2%), the Construction sector (by KD 249.6 million or 16.6%), the Real-Estate sector (by KD 230.7 million or 4.2%), the Industry sector (by KD 172 million or 14.8%), and the Non-bank Financial Institutions sector (by KD 149.7 million or 5.6%).

During the period October 2008 – March 2009 of FY 2008/09, the balances of the utilized cash portion of credit facilities extended by local banks to the domestic economic sectors witnessed a rise by KD 1123.8 million or 5.3% to reach KD 24178.4

million at end of FY 2008/09, compared to KD 23054.6 million at end of September 2008. This rise was an outcome of the rise in credit facilities to the Real-Estate sector (by KD 473.5 million or 8.3%), the "Other" sector (by KD 246.4 million or 17.6%), the Personal Facilities sector (by KD 186.9 million or 2.4%), the Industry sector (by KD 161.5 million or 12.1%), and the Trade sector (by KD 141.7 million or 6.5%).

Consequently, the total growth in the balances of the utilized cash portion of credit facilities extended by local banks to the domestic economic sector has slowed down during FY 2008/09 to reach KD 24178.4 million at end of this FY, against KD 21359.5 million at end of the previous FY, i.e. a growth by KD 2818.9 million or 13.2% after a growth by KD 5537.1 million or 35% during the previous FY.

Development of Balances of Utilized Cash Portion of Credit Facilities (by Residents)
(KD Million)

End of Period	March 2008 (1)	September 2008 (2)	Change in (2) over (1)		March 2009 (3)	Change in (3) over (2)	
			Value	(%)		Value	(%)
Total utilized cash portion of credit facilities, of which:	21359.5	23054.6	1695.1	7.9	24178.4	1123.7	4.9
• Trade	1909.8	2180.2	270.4	14.2	2321.9	141.7	6.5
• Industry	1160.3	1332.3	172.1	14.8	1493.8	161.4	12.1
• Construction	1507.3	1756.9	249.5	16.6	1694.6	-62.3	-3.5
• Non-bank Financial Institutions	2681.3	2831.0	149.7	5.6	2741.8	-89.2	-3.2
• Personal Facilities	7211.8	7773.2	561.3	7.8	7960.1	186.9	2.4
• Real-Estate	5442.6	5673.3	230.7	4.2	6146.4	473.6	8.3

Source: Central Bank of Kuwait.

Regarding the KD credit facility agreements concluded with residents during FY 2008/09, which reflect the change in the limits of existing credit facilities and facilities extended to new clients, the data indicate that the value of these facilities decreased by KD 436.5 million or 4% to KD 10378.6 million during FY 2008/09, against KD 10815.1 million during the previous FY. Within that, the value of credit facility agreements reached KD 5150.8 million during the period October 2008 – March 2009 of FY 2008/09, against KD 5227.8 million during the period April – September 2008 of this FY, i.e. a decrease by KD 77 million or 1.5%. Credit facility agreements recorded a growth of KD 3334.8 million or 44.6% during FY 2007/08, compared to the previous FY.

E- Domestic Liquidity:

As part of its efforts to regulate the levels of domestic liquidity, CBK uses different monetary instruments to regulate those levels in line with local economic, monetary, and banking developments. These tools include, in addition to direct liquidity injection, the scheme of accepting time deposits from local banks, issuing CBK bonds, and managing public debt instruments on behalf of the Ministry of Finance. In this regard, CBK made 11 issues of its bonds during the first half of FY 2008/09, with a total nominal value of KD 566 million. During this period, 8 previous issues of these bonds with a total nominal value of KD 676.6 million matured. As a result, the outstanding balance of CBK bonds fell by KD 110.6 million or 20.2% to KD 436 million at end of September 2008, compared to KD 546.6 million at end of the previous FY 2007/08. In addition, balances of time deposits of local banks with CBK, within the scheme of accepting time deposits from local banks, fell by KD 613.4 million or 93.2% to KD 45.1 million at end of September 2008, compared to KD 658.5 million at end of the previous FY.

Balances of these bonds continued to decrease during the second half of FY 2008/09, as CBK made 10 issues of its bonds with a total nominal value of KD 486 million. During this period, 11 previous issues of these bonds with a total nominal value of KD 569.5 million matured. In the light of this, the outstanding balance of CBK bonds reached KD 352.5 million at end of FY 2008/09, i.e. a decline by KD 83.5 million or 19.2%, compared to KD 436 million at end of September 2008. The same applies to the balances of time deposits of local banks with CBK, within the scheme of accepting time deposits from local banks, which fell by KD 613.4 million or 93.2% to KD 45.3 million, compared to KD 658.4 million at end of the previous FY 2007/08. These balances tended to rise starting from October 2008 to reach KD 527.4 million at end of FY 2008/09, although their level is less by KD 131 million or 19.9%, compared to their level at end of FY 2007/08. As a result of CBK efforts concerning direct liquidity injection into the local banking system units, thus increasing their ability to counter the exodus of funds abroad and to satisfy the financing needs of various domestic economic sectors, total balances of CBK claims on local banks witnessed a notable rise reaching KD 785.5 million at end of October 2008, compared to KD 167 million at end of FY 2007/08, i.e. an increase by KD 618.5 million or 370.4%, before that balance became nil at end of FY 2008/09, as liquidity level increased in the local financial and banking system units.

F- Issuance of Public Debt Instruments:

CBK continued to issue public debt instruments (Kuwaiti Treasury Bonds) during FY 2008/09 on behalf of the Ministry of Finance. The issuance of treasury bills had stopped since April 2005.

CBK made 14 issues of Treasury Bonds during the period April – September 2008 of FY 2008/09 with a total nominal value of KD 1082 million (12 issues of one-year maturity with a total nominal value of KD 1028 million, and 2 issues of two-year maturity with a total nominal value of KD 54 million). During that period, 14 previous issues of Treasury Bonds with a total nominal value of KD 1248 million matured (12 issues of one-year maturity with a total nominal value of KD 1028 million, and 2 issues of two-year maturity with a total nominal value of KD 220 million). Accordingly, the total outstanding balance of public debt instruments (Treasury Bonds) declined by KD 166 million or 7.2% to KD 2130 million at end of September 2008, against KD 2296 million at end of the previous FY 2007/08.

During the period October 2008 – March 2009 of FY 2008/09, CBK made 6 issues of Treasury Bonds (one-year maturity) with a total nominal value of KD 613 million. During that period, 6 previous issues of Treasury Bonds with a total nominal value of KD 613 million matured. Consequently, the balance of public debt instruments (Treasury bonds) was stable at end of FY 2008/09 at KD 2130 million, at its level at end of September 2008 of the same FY. Regarding the distribution of the outstanding balance of public debt instruments among institutions holding them, local banks' holdings totaled KD 2007.5 million (94.2%) of the total balance of public debt instruments at end of FY 2008/09, whereas other institutions' holdings amounted to KD 122.5 million of that balance.

2- Banking Developments:

A- The Aggregate Balance Sheet of Local Banks:

The aggregate balance sheet of local banks* recorded a rise by KD 2282.8 million or 6.1% to KD 39517.3 million at end of FY 2008/09, against KD 37234.5 million at end of FY 2007/08. The major portion (84.6%) of that rise was realized during the period April – September 2008 of FY 2008/09. The aggregate balance sheet of local banks during that period increased by KD 1931.8 million or 5.2% to reach KD 39166.3 million at end of September 2008, compared to its level at end of FY 2007/08. During the period October 2008 – March 2009 of FY 2008/09, the aggregate balance sheet of local banks increased by KD 351 million or 0.9% to reach KD 39517.3 million at end of March 2009, against KD 39166.3 million at end of September 2008. The sources of increase in the aggregate balance sheet of local banks during FY 2008/09 on both sides (Assets and Liabilities) are addressed as follows:

On the Assets Side:

- The balance of local banks' claims on the private sector increased by the equivalent of KD 1488.3 million or 6.4% to reach KD 24871 million at end of September 2008, against KD 23382.6 million at end of FY 2007/08. This increase resulted from a rise in the balances of utilized cash portion of credit facilities extended by local banks to domestic sectors by KD 1695.1 million or 7.9% on the one hand, and the decrease in balances of other local investments by KD 206.8 million or 10.2% on the other hand. Local banks' claims on the private sector witnessed during the period October 2008 - March 2009 of FY 2008/09 an increase of KD 986.9 million or 4% reaching KD 25857.8 million at end of FY 2008/09. This increase resulted from a rise in the balances of utilized cash portion of credit facilities extended by the local banks to domestic sectors by KD 1123.7 million or 4.9% on the one hand, and a decrease in the balances of other local investments by KD 136.9 million or 7.5% on the other hand.

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* All commercial banks, including branches of foreign banks and banks that operate in accordance with the provisions of Islamic Sharia, in addition to a specialized bank (the Industrial Bank of Kuwait).

Aggregate Balance Sheet of Local Banks

(KD Million)

Items	2006/07	2007/08	Sep. 2008	2008/09
Assets:	108.4	98.1	179.6	119.2
Cash	3680.2	1778.6	862.9	1481.6
Claims on CBK	68.1	573.6	381.7	601.5
Balances (demand deposits) with CBK				
CBK Bonds	850.0	546.6	436.0	352.8
Time Deposits with CBK	2762.1	658.5	45.1	527.4
Local Interbank Deposits	1213.0	1897.5	951.2	660.7
Claims on Government	1961.8	1793.6	2011.8	2007.5
Public Debt Instruments	1810.3	1793.6	2011.8	2007.5
Debt Purchase Bonds	151.5	-	-	-
Claims on Private Sector	17134.0	23382.6	24871.0	25857.8
Credit Facilities to Residents	15822.4	21359.5	23054.6	24178.4
Other Domestic Investments	1311.6	2023.1	1816.3	1679.5
Foreign Assets	4268.7	7439.2	9252.9	8420.7
Deposits with Foreign Banks	2330.9	4439.7	5787.1	4967.1
Credit Facilities to Non-Residents	747.4	1109.6	1025.1	1068.8
Foreign Investments	1108.4	1563.5	2042.8	2002.2
Other Foreign Assets	81.9	326.3	397.8	382.0
Other Assets	734.5	844.8	1037.0	969.9
Total Assets = Liabilities	**29100.5**	**37234.5**	**39166.3**	**39517.3**
Liabilities:				
Private Sector Deposits	16490.9	19727.7	20678.3	24119.5
KD Deposits	15050.0	18111.6	18886.4	21037.8
Foreign Currency Deposits	1440.9	1616.1	1792.0	3081.7
Government Deposits	1552.0	1922.7	2226.8	3171.1
Local Interbank Deposits	1247.2	1836.8	870.2	593.2
Shareholders' Equity	3315.7	4752.7	4556.9	4790.9
Foreign Liabilities	4305.1	6605.8	7612.5	4062.5
Non-Resident Bank Deposits	2339.3	3037.2	3295.4	2259.6
Other Non-Resident Deposits	1851.1	3434.0	4161.7	1720.4
Other Foreign Liabilities	114.7	134.7	155.4	82.5
Other Liabilities	2189.6	2388.6	3221.7	2780.2
Contra Accounts:	6597.5	8903.8	10364.7	8903.3
Bank Guarantees	4255.7	5418.4	6415.3	6234.0
Documentary Credits	1940.7	2702.0	2546.8	1643.2
Bank Acceptances	401.0	783.6	1402.6	1026.1

- The balance of foreign assets of local banks increased by the equivalent of KD 1813.7 million or 24.4% to reach KD 9252.9 million at end of September 2008, against KD 7439.2 million at end of the previous FY. This increase resulted from a rise in balances of local banks' deposits with foreign banks by KD 1347.4 million or 30.3%, local banks' foreign investments by KD 479.3 million or 30.7%, and other foreign assets by KD 71.5 million or 21.9%, while the balances of the utilized cash portion of credit facilities extended to non-residents decreased by KD 84.5 million or 7.6%. During the second half of FY 2008/09, the balance of foreign assets of local banks decreased by the equivalent of KD 832.2 million or 9% to reach KD 8420.7 million at end of the mentioned FY. This decrease was an outcome of the drop in balances of local banks' deposits with foreign banks by KD 820 million or 14.2%, local banks' foreign investments by KD 40.6 million or 2%, and other foreign assets by KD 15.8 million or 4%, while the balances of the utilized cash portion of credit facilities extended to non-residents increased by KD 43.7 million or 4.3%.

- The balances of local banks' claims on the government increased during the first half of FY 2008/09 by KD 218.2 million or 12.2% to reach KD 2011.8 million at end of September 2008, against KD 1793.6 million at end of the previous FY. This increase resulted from the rise in the balance of local banks' holdings of Public Debt Instruments (treasury bonds) by the same value and rate to reach KD 2011.8 million at end of the above-mentioned period of FY 2008/09, against KD 1793.6 million at end of the previous FY. During the second half of FY 2008/09, balance of local banks' claims on the government decreased by KD 4.4 million or 0.2% to reach KD 2007.5 million at end of this FY, against KD 2011.8 million at end of September 2008. This decrease resulted from the drop in the balance of local banks' holdings of Public Debt Instruments (treasury securities) by the same value and rate to reach KD 2007.5 million at end of FY 2008/09, against KD 2011.8 million at end of September 2008.

- The balance of local banks' claims on CBK (accounts, deposits and CBK Bonds) declined during the first half of FY 2008/09 by KD 915.7 million or 51.5% to reach KD 862.9 million at end of September 2008, against KD 1778.6 million at end of the previous FY. This decline resulted from a decrease in both the balance of local banks' sight deposits with CBK by KD 613.3 million or 93.1%, and the balance of local banks' holdings of CBK Bonds by KD 110.6 million or 20.2%. During the second half of FY 2008/09, the balance of local banks' claims on CBK (accounts, deposits and CBK Bonds) increased by KD 618.7 million or 71.7% to reach KD 1481.6 million at end of this FY. This increase resulted from a rise in both the balance of local banks' time deposits with CBK by KD 482.3 million to reach KD 527.4 million, and the balance of local banks' sight deposits with CBK by KD 219.8 million to reach KD 601.5 million.

On the Liabilities Side:

- The balances of resident private sector deposits with local banks increased by KD 950.6 million or 4.8% to reach KD 20678.3 million at end September 2008, against KD 19727.7 million at end of the previous FY. This increase resulted from a rise in the balances of KD deposits by KD 774.8 million or 4.3%, and foreign currency deposits by KD 175.8 million or 10.9%. During the period October 2008 - March 2009 of FY 2008/09, the balances of resident private sector deposits with local banks witnessed a rise by KD 3441.2 million or 16.6% reaching KD 24119.5 million at end of FY 2008/09, against KD 20678.3 million at end of September 2008. This increase resulted from a rise in the balances of both KD deposits by KD 2151.5 million or 11.4% to reach KD 21037.8 million and foreign currency deposits by KD 1289.7 million or 72% to reach KD 3081.7 million.

- The balances of foreign liabilities of local banks rose by KD 1006.6 million or 15.2% to reach KD 7612.5 million at end of September 2008, against KD 6605.8 million at end of the previous FY. This increase resulted from a rise in the balances of non-bank foreign entities' deposits with local banks by KD 727.7 million or 21.2%, foreign banks' deposits by KD 258.2 million or 8.5%, and other foreign liabilities by KD 20.7 million or 15.4%. Foreign liabilities of local banks declined during the second half of FY 2008/09 by KD 3550 million or 46.6% to reach KD 4062.5 million at end of this FY. This decline resulted from a decrease in the balances of non-bank foreign entities' deposits with local banks by KD 2441.3 million or 58.7%, foreign banks' deposits by KD 1035.8 million or 31.4%, and other foreign liabilities by KD 72.9 million or 46.9%.

- The balances of government deposits with local banks increased during the first half of FY 2008/09 by KD 304 million or 15.8% to reach KD 2226.8 million at end of September 2008, against KD 1922.7 million at end of the previous FY. Those balances continued their rise during the second half of FY 2008/09 by KD 944.3 million or 42.4% to reach KD 3171.1 million at end of FY 2008/09.

B- The Aggregate Balance Sheet of Investment Companies:

The aggregate balance sheet of local investment companies (traditional and Islamic) witnessed a decline at end of FY 2008/09 by KD 547.4 million or 3.2% to reach KD 16470.9 million at end of FY 2008/09 (for 101 companies registered with CBK on that date), against KD 17018.3 million at end of FY 2007/08 (for 83 companies registered with CBK on that date). Even though there is a notable increase in the number of companies, this decline resulted fundamentally from the negative implications associated with the global financial and economic crisis and the uncertain financial position of a number of local investment companies during the second half of FY 2008/09, whereas the aggregate balance sheet of local investment companies witnessed a drop of KD 1869.7 million or 10.2% to reach KD 16470.9 million at end of March 2009 (for 101 companies), against KD 18340.6 million at end of September 2008 (for 95 companies). It is worth noting that the aggregate balance sheet of local investment companies during the period April - September 2008 of FY 2008/09 witnessed an increase of KD 1322.3 million or 7.8% to reach KD 18340.6 million at end of September 2008 (for 95 companies), against KD 17018.3 million at end of FY 2007/08 (for 83 companies). In the following, there is identification of the sources of increase in the aggregate balance sheet of local investment companies during the period April - September 2008 of FY 2008/09, then the sources of decline in the aggregate balance sheet during the period October 2008 - March 2009 of FY 2008/09, on both sides of assets and liabilities.

On the Assets Side:

- The balance of foreign assets of local investment companies during the period April - September 2008 of FY 2008/09 recorded a rise by KD 659.7 million or 10.3% to reach the equivalent of KD 7074.7 million at end of September 2008, against the equivalent of KD 6415 million at end of the previous FY. This increase resulted from the rise in foreign investments (financial and non-financial) by the equivalent of KD 578.7 million or 10.6%, other assets by KD 142.8 million or 33.7%, and loans and customer financing by KD 17.3 million or 15.5% on the one hand, and the decline in cash and balances with foreign banks and financial institutions by the equivalent of KD 79.1 million or 19.4% on the other. During the second half of FY 2008/09, the balance of foreign assets dropped by KD 512.2 million or 7.4% to reach the equivalent of KD 6553.5 million at end of this FY. This decrease resulted from the decline in foreign investments (financial and non-financial) by the equivalent of KD 605.4 million or 9.8%, other assets by KD 28.9 million or 5.1%, and cash and balances with foreign banks and financial institutions by KD 17 million or 5.2%.

- The balances of other assets increased by the equivalent of KD 658.7 million or 36.8% to reach KD 2448.6 million at end of the period April - September 2008 of FY 2008/09, against KD 1789.9 million at end of the previous FY. During the second half of FY 2008/09, the balances of other assets decreased by KD 50.1 million or 2% to reach KD 2398.5 million at end of this FY.

- The balances of customer financing increased by KD 166.7 million or 8.9% to reach KD 2038.3 million at end of September 2008, against KD 1871.5 million at end of the previous FY. This rise resulted from the increase in the balances of financing through Islamic financial instruments by KD 118.5 million or 14.7%, and balances of loans and advances of conventional companies by KD 48.2 million or 4.5%. During the second half of FY 2008/09, balances of customer financing dropped by KD 220.6 million or 10.8% to reach KD 1817.7 million at end of FY 2008/09, against KD 2038.3 million at end of September 2008. This drop resulted from the decrease in the balances of loans and advances of conventional companies by KD 165.1 million or 14.8%, and balances of financing through Islamic financial instruments by KD 55.6 million or 6%.

- The balance of "cash and balances with local banks and CBK" declined by KD 120.1 million or 9.6% to reach KD 1128 million at end of September 2008, against KD 1248.1 million at end of FY 2007/08. This decline resulted from the decrease in total balance with local banks and other financial institutions by KD 141.2 million or 11.4% to reach KD 1097.6 million at end of September 2008, against KD 1238.8 million at end of FY 2007/08. During the second half of FY 2008/09, these balances dropped by KD 185.8 million or 16.5% to reach KD 942.2 million at end of this FY, against KD 1128 million at end of September 2008. This decline resulted from the decrease in the total balance with local banks and other financial institutions by KD 178.3 million or 16.2% to reach KD 919.3 million at end of FY 2008/09, against KD 1097.6 million at end of September 2008.

- The balances of domestic investments declined by KD 42.7 million or 0.8% to reach KD 5651.1 million at end of the period April - September 2008 of FY 2008/09, against KD 5693.8 million at end of the previous FY. This decline resulted from a decrease in the balances of domestic financial investments by KD 79.8 million or 1.5%, and an increase in balances of domestic non-financial investments by KD 37 million or 9.8%. During the period October 2008 - March 2009 of FY 2008/09, balances of domestic investments decreased by KD 892.1 million or 15.8% to reach KD 4759 million at end of FY 2008/09, against KD 5651.1 million at end of the period April - September 2008 of the same FY. This decline resulted from a decrease in balances of domestic financial investments by KD 968.7 million or 18.5%, and an increase in balances of domestic non-financial investments by KD 76.6 million or 18.5%.

Aggregate Balance Sheet of Local Investment Companies

(KD Million)

Items	Balances at Period-End			
	2006/07	**2007/08**	**Sep. 2008**	**2008/09**
Assets:				
Cash & balances with local banks and investment companies	1041.1	1248.1	1128.0	942.2
Financing customers	1733.9	1871.5	2038.3	1817.7
Loans and advances to residents (conventional companies)	1037.3	1065.0	1113.2	948.1
Financing customers with Islamic financial instruments	696.5	806.5	925.1	869.5
Local investments	4526.6	5693.9	5651.1	4759.0
Financial investments	4035.3	5317.6	5237.8	4269.1
Non-financial investments	491.3	376.3	413.3	489.9
Foreign assets	4897.2	6415.0	7074.7	6553.5
Other assets	1416.8	1789.9	2448.6	2398.5
Assets = Liabilities	**13615.3**	**17018.3**	**18340.6**	**16470.9**
Liabilities:				
Capital and Reserves	4970.6	6254.7	6423.0	5804.6
Financing from residents	3623.1	4276.9	3999.8	4107.9
Bonds and financing instruments	879.8	800.7	780.8	888.5
Foreign liabilities	2568.0	3435.6	4124.5	3440.1
Other liabilities	1573.9	2250.4	3012.5	2229.8
Number of companies	76	83	95	101

On the Liabilities Side:

- The balance of foreign liabilities increased during the period April - September 2008 of FY 2008/09 by KD 688.9 million or 20.1% to reach the equivalent of KD 4124.5 million at end of that period of FY 2008/09, against the equivalent of KD 3435.6 million at end of the previous FY. During the period October 2008 - March 2009 of FY 2008/09, the balance of foreign liabilities decreased by KD 684.3 million or 16.6% to reach the equivalent of KD 3440.1 million at end of FY 2008/09, against the equivalent of KD 4124.5 million at end of September 2008.

- The balance of other liabilities increased by KD 762 million or 33.9% to reach KD 3012.5 million at end of September 2008, against KD 2250.4 million at end of FY 2007/08. During the second half of FY 2008/09, the balance of other liabilities decreased by KD 782.7 million or 26% to reach KD 2229.8 million at end of FY 2008/09, against KD 3012.5 million at end of September 2008.

- The balance of financing from residents (banking and financial system units and non-financial institutions) declined by KD 277.1 million or 6.5% to reach KD 3999.8 million at end of September 2008, against KD 4276.9 million at end of FY 2007/08. This decline resulted from decrease in the balance of financing from other institutions by KD 184.6 million or 33.8%, and banks by KD 127.9 million or 4.7%. During the second half of FY 2008/09, balances of financing from residents rose by KD 108.1 million or 2.7% to reach KD 4107.9 million at end of this FY, against KD 3999.8 million at end of September 2008. The increase resulted from a rise in the balance of financing from other institutions (by KD 85.6 million or 12.8%), and banks (by KD 188.5 million or 7.2%) on the one hand, and the drop in the financing from investment companies (by KD 165.9 million or 23.4%) on the other hand.

- The balances of capital and reserves declined by KD 450.1 million or 7.2% to reach KD 5804.6 million at end of FY 2008/09, against KD 6254.7 million at end of the previous FY 2007/08.

- The balances of bonds and financing instruments decreased by KD 19.9 million or 2.5% during the first half of FY 2008/09 to reach KD 780.8 million at end of September 2008, against KD 800.7 million at end of the previous FY 2007/08. During the second half of FY 2008/09, those balances increased by KD 107.6 million or 13.8% to reach KD 888.5 at end of FY 2008/09.

Second- Significant Supervisory Measures and Instructions Issued by the CBK:

During FY 2008/09, CBK continued its efforts aimed at developing its supervision and oversight over the banking and financial system units through off-site monitoring and on-site inspections of these units. The persistent CBK efforts strive to enhance the strength and safety of the financial positions of those units according to international oversight standards, and to increase their competitiveness and efficiency. These units include, as of 31/3/2009, all local commercial, Islamic and specialized banks (17 banks), investment companies (101 companies, 55 of them operate in accordance with provisions of the Islamic Sharia), exchange companies (39 companies), and local mutual funds (111 funds, 54 of them operate in accordance with provisions of the Islamic Sharia). This highlights in particular CBK's efforts in enhancing its regulatory precautionary and preventive regulations and instructions to ensure the solidarity of the banking and financial system units' positions that will enhance their role in providing financing needs to various economic sectors on the one hand, and maintain financial stability on the other hand. During the period April - September 2008 of FY 2008/09, CBK aimed at rationalizing credit policies of local banks and curbing excessive credit facilities to maintain monetary and financial stability in the national economy.

In order to achieve this, CBK issued a number of supervisory measures and instructions during the period April - September 2008 of FY 2008/09, the most significant among these are the following:

- The circular issued on 7/5/2008 to all local banks and investment companies regarding adjustments to tables of consumer loans and other installment loans data (housing loans).

- The circular issued on 12/5/2008 to all traditional banks operating in the State of Kuwait regarding changes to instructions on the Basel II capital adequacy standard, by raising the risk weight for consumer loans, installment loans, and credit cards' debit balances, and identifying the risk weight of credit facilities extended from banks to fund real estate activities, and excluding retained interim earnings.

- The circular issued on 2/6/2008 to all local banks and investment companies regarding preparation of aggregate financial data, following standard policies, methods and treatments for all units of the group, particularly with regard to not excluding credit facilities/funding operations extended by subsidiaries, and building required allocations as done for credit facilities/funding operations extended by the bank (parent company).

- The circular issued on 4/6/2008 to all local banks to stop giving cash or in-kind incentives, whether directly or through drawings or any other form, to clients when they obtain facilities or any kind of credit cards.

During the period October 2008 - March 2009 of FY 2008/09, CBK intensively followed up the rapid aggravation of the global financial and economic crisis since October 2008, and its accompanying significant implications on the banking and financial sector in most countries of the world. In this context, CBK raced to take precautionary and preemptive steps to guide its monetary and supervisory policies toward enhancing the atmosphere of confidence and the financial and economic stability in the country. In addition to its efforts to address the implications of the liquidity squeeze and credit crunch in foreign markets, and the consequential uncertainty of the financial positions of a number of local economic units, especially some local investment companies with relatively high exposure to foreign markets, as their external financing lines were cut, CBK made notable adjustments to some supervisory measures and controls that organize the credit extended by local banks to their clients, in order to increase their ability to satisfy the funding needs for various national economic sectors. The most significant adjustments made by CBK during the period October 2008 - March 2009 of FY 2008/09 are as follows:

- The circular issued on 8/10/2008 to all traditional banks to consider real estate as one of the acceptable (eligible) collaterals for decreasing credit risk that were mentioned in CBK instructions regarding implementation of the adjusted Basel II capital adequacy standard.

- The circular issued on 8/10/2008 to all local banks to raise the maximum limit of the ratio set for the daily average balance of credit facility portfolio to the daily average balance of deposits during the month for this ratio reference from 80% to 85%.

- The circular issued on 15/10/2008 to all investment companies regarding CBK's approval for traditional and Islamic investment companies to borrow from the public institutions and government bodies that provide funding according to the financing forms acquainted, to help filling the funding gap of the investment companies.

- The circular issued on 9/11/2008 to all traditional local banks regarding CBK's request to all banks to take into consideration CBK's stance and objectives when lowering the discount rate, and take initiatives to lower interest rate on loans and facilities to assist in countering the impact of the global financial crisis on the financial and economic situation in the country.

- The circular issued on 17/11/2008 to Kuwaiti banks concerning some exemptions from the supervisory ratios set for banks participating in implementing the investment companies treatment program, in particular ratios pertaining to the maximum limit of the ratios of credit facilities portfolio to deposits, the exclusion of the funds given to the investment companies by this program from the growth rate set for credit portfolio (funding), and the exemption from creating the general provision (1%) for this new funding.

- The circular issued on 1/12/2008 to all local banks directing them to enhance the collateral received from their clients against credit facilities/funding operations, and reaching out to those clients and urging them to pledge collateral or enhance existing collateral.

- The circular issued on 4/12/2008 regarding reduction of the ratio of customers' deposits in Kuwaiti Dinar (KD) that local banks (traditional and Islamic) should hold within the requirements of the liquidity management scheme according to maturity ladder (in the form of CBK balances, in addition to bills and bonds of the Kuwaiti treasury, or international short-term Murabaha, or financing instruments, or any other financial instruments issued by CBK) to become 18% instead of 20%.

- The circular issued on 15/12/2008 to all traditional banks emphasizing CBK stance that banks should conduct the required reduction in interest rates on loans, in accordance with the CBK decision to cut its discount rate starting from 8/10/2008.

- The circular issued on 5/3/2009 to all local banks in regards to providing CBK with the stress-testing results as on 31/12/2008, no later than 30/3/2009, to assess the banks' ability to face exposures in light of difficult conditions and circumstances.

Third- Major Banking Operations Performed by CBK:

CBK witnessed during FY 2008/09 a rise in the level of banking activities related to currency issued and local interbank transfers, and a decrease in clearing transactions. Regarding currency issued, the balance of banknotes and coins issued by CBK during FY 2008/09 has increased as its monthly average reached KD 852.1 million, compared to KD 752.9 million during the previous FY. The highest balance of currency issued during FY 2008/09 reached KD 915.6 million in September 2008, while the lowest balance reached KD 785.3 million in August 2008. In the same direction, the value of currency in circulation (expressed by the currency issued minus cash held by local banks) increased by KD 76.7 million or 11.5%, from KD 665.8 million at end of FY 2007/08 to KD 742.5 million at end of FY 2008/09.

Furthermore, inter-bank payments transactions, which are carried out by CBK through Kuwait's Automated Settlement System for Inter-Participant Payments (KASSIP), during FY 2008/09 reached KD 240.2 billion, against KD 227.3 billion during the previous FY, i.e. an increase of KD 12.9 billion or 5.7%. Worth noting is that "KASSIP" has been developed and updated to include branches of foreign banks that have been licensed to operate in Kuwait. Consequently, two banks have joined "KASSIP" during FY 2008/09, bringing the number of participants in the system to 19.

With respect to transactions executed within the clearing room at CBK, the total value of these transactions during FY 2008/09 decreased to KD 10.6 billion for 2192 thousand transactions (cheques) (i.e. an average value of KD 4842.1per transaction), against KD 11.9 billion for 2196 thousand transactions (cheques) (i.e. an average value of KD 5397.4 per transaction) during FY 2007/08.

CBK executed, during FY 2008/09, 9753 banking transfers for the benefit of ministries and different state institutions totaling KD 976.9 million, against 8954 banking transfers totaling KD 1056.4 million during the previous FY 2007/08.

As for foreign banking transactions that were carried out by CBK for the benefit of the State ministries and other government bodies in the form of documentary credits, bills and drafts for collection during FY 2008/09, these are presented as follows:

Particulars	No.	Value (in KD)
First-Documentary Credits:		
1- Opened	78	65,413,873
- Local	2	10,443,046
- Foreign	76	54,970,827
2- Paid	250	49,744,451
- Local	5	2,693,893
- Foreign	245	47,050,558
3-Amended:	58	
- Local	3	
- Foreign	55	
Second-Collection Transactions:		
Bills for Collection	7	15,080
a- Incoming	4	8,114
b-Paid-up	3	6,966
Third-Drafts for Collection:		
a- Collected	140	462,864
b- Purchased	-	-

Fourth- The Labor Force at CBK:

CBK efforts have continued toward developing the efficiency of its cadres and upgrading their educational and professional levels. CBK has taken a number of measures in this regard during FY 2008/09, including the following:

1- During FY 2008/09, 30 Kuwaiti graduates (of which 22 hold university degrees and 8 hold diploma of applied sciences) were appointed as trainees for positions at CBK. Furthermore, during the same FY, 62 individuals, of which 58 Kuwaitis (93.5%), were recruited. Also, 27 Kuwaiti trainees who completed their training programs during FY 2008/09 were confirmed in their jobs at CBK. Accordingly, by end of FY 2008/09, the total number of CBK staff reached 809 employees, of which 685 (or 84.7%) are Kuwaitis.

2- During FY 2008/09, CBK participated in 152 specialized training courses in the State of Kuwait, and sent 554 of its employees to these courses. Furthermore, CBK sent 127 of its employees to 96 training courses abroad, in coordination with a number of specialized training bodies in the fields of banking, finance and economics.

3- During FY 2008/09, CBK sent 141 of its employees abroad to attend 77 conferences and meetings of relevance to CBK's work, held at the Gulf, Arab and international levels.

4- During FY 2008/09, CBK organized several specialized training programs for new graduate Kuwaiti cadres, holders of university degrees or diplomas, to prepare and qualify them for work in CBK's various departments and offices.

5- During FY 2008/09, CBK have developed and updated job description cards for all jobs of CBK in all sectors, departments, and offices.

Fifth- Other Operations and Activities:

During FY 2008/09, CBK carried out various operations and activities, including the following:

- During FY 2008/09, CBK continued its efforts toward ensuring the quality of currency notes in circulation, withdrawing and destroying those notes that no longer fulfill CBK's minimum quality requirements, and fighting crimes of counterfeiting and forgery of banknotes in collaboration with other government bodies. In this connection, the value of withdrawn and destroyed currency notes during FY 2008/09 reached KD 200.9 million.

- During FY 2008/09, CBK continued preparing and publishing its various periodicals (monthly and quarterly). Also, CBK continued to publish its economic and annual reports in both Arabic and English, and distribute them locally and internationally to those who are interested in monetary, banking, financial and economic developments in the State of Kuwait. In addition to updating the contents of its internet homepage which contains information, data and statistics available on local financial and banking sector, and other sectors of the national economy, as well as some basic information on CBK.

- During FY 2008/09, CBK undertook several technical projects aimed at developing and updating the application and technical systems used to perform different functions. The most important of these projects that is being executed is a "system of electronic banking services" which aims at automating procedures for financial payments and remittances among government bodies and agencies subject to the supervision of CBK (investment and exchange companies) on the one hand and local banks on the other. Giving relevant agencies the ability of on-line query and control of their accounts in CBK, and a "cheque reading system" to automate the procedure of reading data of CBK cheques for payment to provide a better service to customers in terms of accuracy and speed. In addition to conducting tests on the "banking unit system" to save, retrieve and maintain basic data of banking units which are under CBK supervision by using tools of systems development, and modern databases, as well as performing parallel operation on the "advanced time series system" to develop the data collection and storage system.

- During FY 2008/09, CBK took part in many international conferences related to the operations and activities of central banks, the most important of which were the meetings of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund, which were held in Washington on 12 April and 11 October 2008, the meeting of the Board of Governors of Arab Central Banks and Monetary Authorities, which was held in Marrakech (Kingdom of Morocco) on 7 October 2008, the two meetings of the Committee of Governors of the Monetary Authorities and Central Banks of the Cooperation Council for Arab States of the Gulf held in the city of Doha (Qatar) on 6 April and 9 June 2008, and the joint meeting of the Financial and Economic Cooperation Committee of the Gulf Cooperation Council (GCC) and the Committee of Governors of the Monetary Authorities and Central Banks of the GCC Countries in the city of Jeddah (Saudi Arabia) on 15-16 September 2008. In addition to participating in the proceedings of the "International Arab Banking Summit 2008", organized by the Union of Arab Banks, which was held in the French capital Paris on June 26, 2008 under the patronage of his Excellency the President of the French Republic and in collaboration with the Association of French Banks, the European Banking Association, and the International Union of Arab Bankers. CBK also participated in the fourteenth meeting of the Board of Directors of the Council of Islamic Financial Services as well as the seventh meeting of the General Assembly of the Council which were held on 31 March 2009 in Riyadh (Saudi Arabia).

Sixth:

The Central Bank of Kuwait
Balance Sheet and Profit & Loss Account
for the Fiscal Year Ended 31 March 2009

AUDITORS REPORT

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

In our opinion, the financial statements give a true and fair view of the real financial position of CBK on 31 March 2009 and of the results of its operations for the year then ended, in compliance with Law No. 32 of 1968 and amendments thereof.

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

Bader Abdullah Al-Wazan	**Waleed Abdullah Al-Oseimi**
Register of Accountants & Auditors	Register of Accountants & Auditors
License No. 62 A -	License No. 68 A -
Bader & Partners	Al-Aiban, Al-Osaimi & Partners
of PRICE WATERHOUSE COOPERS	of ERNST & YOUNG

28 April 2009
State of Kuwait

BALANCE SHEET AS ON

Assets	Note	31 March 2009	31 March 2008
Gold		31,736,332	31,736,332
Cash, Current and Call Accounts in Foreign Currency with Banks and other Financial Institutions		609,721,724	303,029,123
Deposits and Investments in Foreign Currency	3	4,354,062,180	4,007,349,700
Other Assets	4	31,635,800	25,302,531
		5,027,156,036	**4,367,417,686**
Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts	11	**2,404,154,633**	**2,485,354,763**

31 MARCH 2009 (KD)

Equity and Liabilities	Note	31 March 2009	31 March 2008
Capital - Fully Paid Up		5,000,000	5,000,000
General Reserve Fund	5	295,000,000	295,000,000
Special Account	6	99,772,084	112,028,587
Profit for the Year		77,031,901	246,134,358
Currency Issued	7	861,701,887	763,875,976
CBK Bonds Issued		352,500,000	546,600,000
Government Accounts		844,811,723	860,878,611
Accounts of banking system liquidity support	8	1,080,021,151	-
Local Banks' Current Accounts and Deposits with CBK	9	1,137,340,994	1,252,252,420
International Institutions		100,485,968	146,391,627
Deposits on Documentary Credits	11	73,165,910	57,643,799
Other Liabilities	10	100,324,418	81,612,308
		5,027,156,036	**4,367,417,686**
Accounts Managed by CBK on Behalf of the Government of the State of Kuwait, and Contra Accounts	11	**2,404,154,633**	**2,485,354,763**

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

PROFIT & LOSS ACCOUNT FOR
FY ENDED 31 MARCH 2009
(KD)

	Note	2008/09	2007/08
Interest & Income from Investments		119,929,614	262,173,940
Interest and Commission Expenses		(74,364)	(80,490)
		119,855,250	262,093,450
Other Income		1,431,271	9,695,167
Operating Income		121,286,521	271,788,617
Operating Expenses	12	(44,254,620)	(25,654,259)
Net Profit for the year		77,031,901	246,134,358
Disposed of according to Article 17, of Law No. 32 of 1968 and its amendments, as follows:			
to the Government Account	5	77,031,901	246,134,358

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

NOTES TO THE FINANCIAL STATEMENTS
(31 MARCH 2009)

1- Activities:

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

2- Significant Accounting Policies:

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

(a) Gold:

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

(b) Local Bonds and Public Debt Instruments:

Public Debt Instruments are recorded at purchase cost.

(c) Cost of Money Market Operations:

The cost arising from intervention operations in the money market (CBK Bonds issued, local banks deposits and tawarruq operations) are charged to the Ministry of Finance Account/cost of Supporting Money Market operations, according to the agreement between CBK and the Ministry of Finance.

(d) Revenue Recognition:

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

(e) Capital Expenditure:

Capital expenditure is charged to expenses in the year of authorization.

(f) Foreign Currencies:

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

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

	2008/09	2007/08
Deposits with Foreign Banks and Institutions	4,349,693,430	4,003,367,950
Central Bank Facilities to the International Bank for Reconstruction and Development	4,368,750	3,981,750
	4,354,062,180	**4,007,349,700**

4- Other Assets (KD):

	2008/09	2007/08
Interest Receivable on Deposits and Other Assets	5,487,588	14,142,939
CBK's Share in the Capital of the Industrial Bank of Kuwait	2,791,210	2,511,210
Prepaid Expenses	230,545	223,280
Advance Payments	19,482,560	38,728
Other Debit Balances	3,643,897	8,386,374
	31,635,800	**25,302,531**

5- General Reserve Fund:

In accordance with Article 17, paragraphs 3 (a) and (b), of Law No. 32 of 1968 and amendments thereof, the net profits of the CBK shall be paid into the General Reserve Fund until the balance of the fund amounts to twenty-five million Kuwaiti Dinars, unless the Board of Directors recommends and the Minister of Finance approves further increases in the balance of the Fund. In 1985, the Board recommendation to increase the balance of the fund to KD 179 million was approved by the Minister of Finance and Economy. In accordance with the Board decision dated on 5 May 2003, and the approval of the Minister of Finance on 7 May 2003, it was agreed to increase the balance of CBK General Reserve Fund by KD 116 million to KD 295 million, by transferring half of CBK net annual profits to the Fund balance. Accordingly, KD 46,994,273 from profits of FY ended 31 March 2007 was transferred to the General Reserve Fund, bringing its balance to KD 295 million, following the approval of the CBK financial data by the Minister of Finance. Therefore, no amount has been allocated from the profits after FY 2006/07 for the conversion to the General Reserve Fund, where the balance of the Reserve has reached to the approved maximum balance.

6- Special Account (KD):

	2008/09	2007/08
Balance at Beginning of the Year	112,028,587	305,970,209
Net difference in foreign currency , resulting from revaluation of cash assets and liabilities in foreign currencies	(12,256,503)	(193,941,622)
Balance at End of the Year	**99,772,084**	**112,028,587**

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

7- Currency Issued (KD):

	2008/09	2007/08
Net Currency Produced	1,357,305,650	1,322,352,886
Less: Currency in the CBK’s Vaults	(495,603,763)	(558,476,910)
	861,701,887	**763,875,976**

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

8- Banking System Liquidity Support Account:

Represents the amounts transferred to the Central Bank of Kuwait according to the instructions of the Ministry of Finance- pursuant to the requirements of paragraph (e) in Article 31 of Law No. 32 of 1968, and amendments thereof, concerning money, the Central Bank of Kuwait, and the organization of the banking profession, so as to support the banking system liquidity.

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

	2008/09	2007/08
Current Accounts	609,970,146	593,800,846
Deposits	322,500,000	177,000,000
Tawarruq Operations (withdrawals)	204,870,848	481,451,574
	1,137,340,994	**1,252,252,420**

10- Other Liabilities (KD):

	2008/09	2007/08
Accrued Expenses	8,689,426	4,307,276
Other Credit Balances	50,362,031	27,305,032
Ministry of Finance-Cost of Supporting Money Market Operations (Note 2-C)	**41,272,961**	**50,000,000**
	100,324,418	**81,612,308**

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

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

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

	2008/09	2007/08
a- Accounts Managed by the CBK on Behalf of the Government of Kuwait	2,302,741,913	2.407,563,340
b- Contra Accounts:		
Documentary Credits	77,761,491	64,276,523
Memorial Notes and Coins	1,439,922	1,483,840
Collections According to the Law No. 41 of 1993	22,211,307	12,031,060
	101,412,720	77,791,423
	2,404,154,633	**2,.485,354,763**

On 31 March 2009, deposits of KD 73,165,910 (KD 57,643,799: 2008) were held against the documentary credits referred to above.

12- Operating Expenses (KD):

	2008/09	2007/08
Employee Costs	17,539,993	15,723,686
Administrative and Computer Operation Costs	2,503,995	2,018,879
Purchases of Furniture, Equipment and Vehicles	1,437,752	850,714
Production and Shipment of Currency	3,097,912	4,330,131
Sundry Expenses	1,736,600	1,790,177
Construction Costs	17,938,368	940,672
	44,254,620	**25,654,259**

13- Promissory Notes Held:

On 31 March 2009, promissory notes held by CBK in safe custody on behalf of international institutions totaled KD 480,739,173 (KD 465,430,537: 2008).

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For correspondence and enquiries:

Postal address:	Central Bank of Kuwait Economic Research Department P.O. Box 526 Safat 13006 Kuwait State of Kuwait
Telephone:	+(965) 2240 3257
Facsimile:	+(965) 2244 0887
E-mail Address:	**cbk@cbk.gov.kw**

Website: **http://www.cbk.gov.kw**

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