Annual Report 2016

Commercial Bank of Kuwait

Al-Tijari

His Highness Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

His Highness Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince

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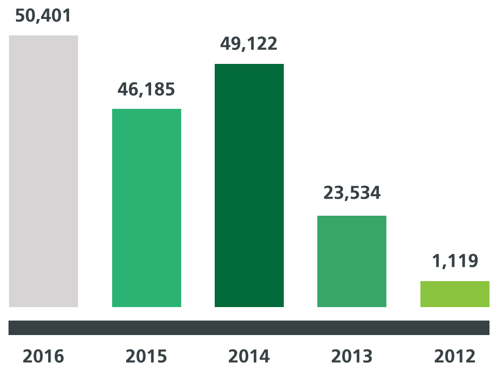

Net profit Attributable to Shareholders of the Bank
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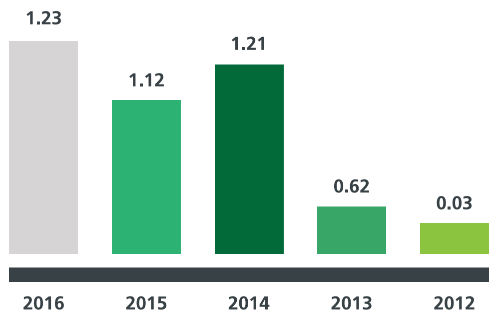

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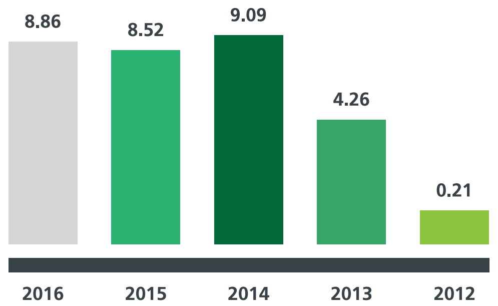

Return on Shareholders' Equity
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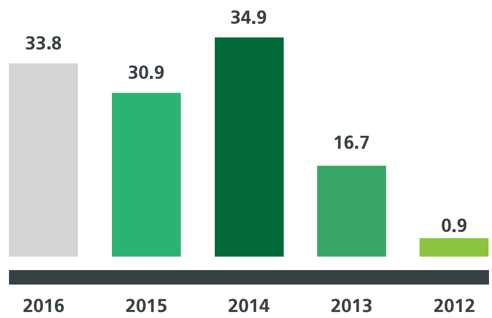

Earning Per Share Attributable to Shareholders of the Parent Bank
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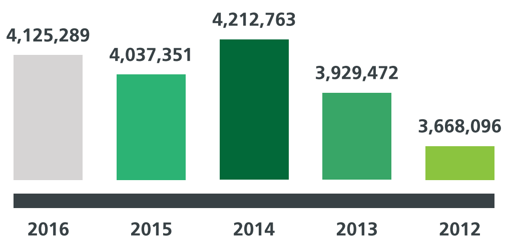
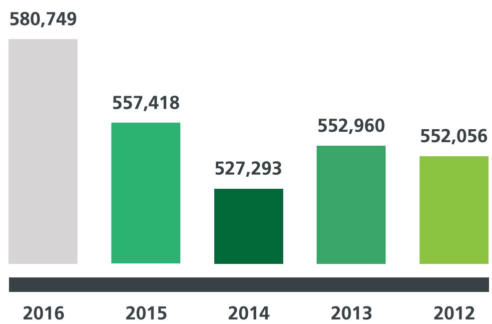


Total Assets
KD 000's



Equity Attributable to Shareholders of the Bank
KD 000's

BOARD OF DIRECTORS

Mr. Ali Mousa M. Al Mousa
Chairman

Sheikh. Ahmed Duaij Al Sabah
Vice Chairman

Mr. Abdulrazzak A. Al Kandari
Member

Mr. Abdulrahman Abdullah Al Ali
Member

Dr. Arshid Abdulhadi Al Houri
Member

Mr. Bader Sulaiman Al Ahmad
Member

Mr. Musaed Nuri Al Saleh
Member

Ms. Rasha Y. H. Al Awadhi
Member

Mr. Hazem Meshari Al Khaled
Member

Ms. Mona Mousa Al Sarraf
Member

INTRODUCTION

INTRODUCTION

Commercial Bank of Kuwait is a well-established financial institution with a profound franchise in Kuwait banking industry being the second oldest bank incorporated in Kuwait. The Bank has identified focused objectives that would help positioning it in the forefront of local Banks in Kuwait by reinforcing the confidence it has built with its retail and corporate customers.

Notwithstanding the challenges facing Kuwait's economy in general and their implications on the banking sector in Kuwait, Commercial Bank of Kuwait managed, owing to its well-defined strategy aiming to counter and cope with all variables and volatility posed by economic environment, to attain the aspired objectives and maintain its position amidst the instable and tough economic conditions.

The Bank will remain on course for providing excellent and best-in-class banking products & services which meet all the requirements of its retail and corporate customers and live up to their expectations so that Al-Tijari would remain the bank of choice for all customers. In addition, the Bank will continue to participate in financing the pivotal projects launched by the State under the development plan.

The Bank will strive to achieve higher returns for its shareholders along with maintaining its significant role in corporate social responsibility & sustainability initiatives as a prestigious financial institution that endeavors to underpin principles of corporate social responsibility framework.

Ali Mousa M. Al Mousa
Chairman

CHAIRMAN'S MESSAGE

In the name of Allah the Most Gracious, the Most Merciful

Our valued shareholders,

On behalf of the Board of Directors of Commercial Bank of Kuwait, I have the pleasure to present a synopsis on the Bank's 2016 business results. The financial statements enclosed herewith contained all details, information and statements required by the law and the regulatory instructions along with some other issues peculiarly outlined and highlighted by the Bank. We hope to shed light on issues of concern for our valued shareholders and the other stakeholders of the Bank.

First: Highlights on the Main Points & Notes as Contained in Financial Statements

The Bank's financial statements clearly reflect the positive outcome of the conservative approach adopted by the Bank's Management since mid 2014. This approach resulted in a significant improvement in assets quality and helped the Bank to enhance its position to avert and overcome the expected risks; the Bank's Management was cognizant of its nature. Kuwait economy continued to see a state of instability due to dwindled oil prices over the past years and which negatively affected the State's revenues, but the Bank managed to address such impacts on its position owing to this conservative approach that underpinned the Bank's assets quality and helped to achieve an increase in its profitability.

Total Assets

The Bank's total assets of KD 4,125.3 million at the end of 2016 increased by KD 87.9 million (2.2%) compared to KD 4,037.4 million at the end of 2015. It is worth mentioning that the Senior Management's decision taken in 2014 to restructure the Bank's assets and liabilities in order to improve assets quality, the income generated from these assets has yielded good results as reflected in the improving profitability margins across business divisions, particularly Treasury & Investment Division and International Banking & Syndication Division.

Loans & Advances

The Bank's total loans portfolio of KD 2,250.5 million as at the end of 2016 was lower by KD 47 million (2%) compared to KD 2,297.5 million at the end of 2015. This decrease was driven from the Bank's continued strategy targeting improvement of the loans portfolio quality and off-loading non-performing loans from the Bank's records without waiving off any of the Bank's legal rights.

Off-loaded Debts (Loans)

The accumulated balance of off-loaded loans since 2010 amounted to KD 685.8 million as at the end of 2016 (off-loaded loans amounted to KD 258 million during the last four years where recovered loans amounted to KD 93.8 million during the same period). This figure is usually not published in the financial statements. The Bank continues initiating the required procedures towards the debtors who obtained such loans so that the Bank can recover the largest possible amount of such loans.

It is very important here to mention that the percentage of the non-performing loans to total loans portfolio stood at 0.5% at the end of 2016 (compared to 0.9% at the end of 2015) which is the best in Kuwait banking sector.

Provisions

Over the past years, the Bank adopted a conservative approach for building up the required provisioning base (general or specific). The Bank continues with this approach which primarily aims at hedging against customers' defaults or impairment of the Bank's investments, thus solidifying the Bank's balance sheet to avert any potential risks that may arise in the future. The Bank's provisions amounted to KD 141 million and the provision coverage ratio for NPL stood at 1175.8%.

Income & Profitability

- Total Fees and commissions income amounting to KD 37.4 million as at the end of 2016 was 9.4% higher than KD 34.2 million at the end of 2015.
- Total interest income amounting to KD 120.1 million at the end of 2016 increased by KD 11.7 million (10.8%) compared to KD 108.4 million as at the end of 2015.
- Total operating income amounting to KD 140.3 million at the end of 2016 increased by KD 4.1 million (3%) compared to KD 136.2 million for the last year.

  The net profit amounting to KD 50.4 million (33.8 fils per share) as at the end of 2016 was 9.1% higher than KD 46.2 million (30.9 fils per share) as at the end of 2015.
- Return on Assets (ROA) stood at 1.2% and Return on Equity (ROE) stood at 8.9% at the end of 2016 compared to 1.1% and 8.5% respectively as at the end of 2015.

As such, the accumulated retained earnings carried forward to the next year amounted to KD 165.2 million with an increase of KD 13.1 million (8.6%) at the end of 2016 compared to KD 152.1 million at the end of 2015.

Shareholders' Equity

The Bank's shareholders' equity amounting to KD 580.7 million at the end of 2016 increased by KD 23.3 million (4.2%) compared to KD 557.4 million at the end of 2015.

Capital Adequacy & Leverage Ratios

The capital adequacy ratio stood at 17.9% at the end of 2016 compared to 18.4% at the end of 2015 and this ratio comfortably exceeds the ratio mandated by the regulatory authorities represented by the Central Bank of Kuwait.
Furthermore, leverage ratio stood at 11.2% and liquidity coverage ratio reached 142% at the end of 2016 and these ratios comfortably exceeds the minimum requirements set by the Central Bank of Kuwait as per its instructions issued in this regard.

Second: Future Outlook

The negative economic developments posed by the falling crude oil prices that started from the end of 2014 revealed the importance of this commodity and its substantial impact on Kuwait economy on the back of Kuwait's total reliance on oil revenues. Due to deteriorating oil prices, the State's budget deficit started to shift into a structural deficit that may continue for coming years. Furthermore, the corrective actions to remedy the same will have social consequences apart from economic ones represented in shrinking growth rates in non-oil sectors.

The price trend of oil in the year 2017 is unpredictable as these prices will be contingent on a set of factors, namely supply and demand, the prices of alternative energy especially renewable energy such as solar & wind energy as well as energy efficiency and the rapid technological advancement in transportation in addition to the political tension seen in the Middle East and the persistent unstable situation in the Gulf region since long time. The uncertainty surrounding the predicted oil prices is reflected in the high degree of divergence on Brent Crude oil prices predictions during the year 2017 where crude oil prices forecasting centers expect that oil prices will reach USD 50 per barrel and other economists expected that oil prices may reach USD 70 per barrel whilst other pessimistic observers anticipated that oil price will reach USD 30 per barrel.

IMF country report "Kuwait: Selected Issues" dated 16/12/2016 which contained professional consultation is alarming oil exporting countries. The report explained that the oil prices expected to persist near the present levels and the absence of reforms over the medium term (2016 – 2021) will reduce growth rates from 5.4% to 3.2% and this will be reflected in the reduced non-oil sector growth. The report also highlighted the urgency of significant structural reforms to boost productivity and to create a dynamic private sector which can absorb the growing national labor force.

In view of the above, the Bank is cautiously monitoring the changes and developments which the year 2017 will bring to the region, since it is regarded as a year of economic variables that will impose volatile and tough economic conditions that the region has to cope with.

In conclusion and on behalf of the Board of Directors, I would like to extend my thanks and appreciation to the Bank's shareholders, customers, employees, all other stakeholders and regulatory authorities represented by the Central Bank of Kuwait. I wish all the success and progress to all the parties

Ali Mousa M. Al Mousa
Chairman

EXECUTIVE MANAGEMENT

Elham Yousry Mahfouz

Chief Executive Officer

Mohamed Hashem Mohamed Hashem

Legal Advisor to Chairman
GM - Legal

Sahar Abdulaziz Al Rumaih

GM - Corporate Credit
Acting GM - Retail Banking Division

Yaqoub Habib Al-Ebrahim

GM - Compliance & Corporate Governance Department

Masud Ul Hassan

GM - Financial Control Department

Mona Hussain Al Abdulrazzaq

GM - Human Resources Department

Adli Abdullah Ghazal

GM - Treasury & Investment Division

Sheikha. Nouf Salem Al Ali Al Sabah

Head of Advertising & Public Relations Department

Syama Sundar Parvatraj

Acting Head - Risk Management Division

Ahmad Mohammad Saif Al-Deen Farahat

Chief Internal Auditor

Paul Abdoulnour Daoud

GM - Operations Division

Yasser Mahmoud Behbehani

Acting GM - ITD

Kunal Anirudh Singh

Acting Head- International Banking & Syndication Division

Nawaf Ali Sabah Al-Sabah

Senior Manager - General Services Department

ECONOMIC BACKGROUND

GLOBAL ECONOMY

Year 2016 started with big turbulence in the global economy, led by Chinese market collapse and oil producing countries rating downgrade. Another major shock was BREXIT, which forced US Federal reserve to hold rate hikes and BOE cut interest rates along with Quantitative easing. Low oil price has given boost to many oil consuming countries, however the significant slowdown faced by oil producing countries have shaved the global growth by more than 1 pct. Geopolitical tension along with glut in the oil price are the major threat for the stability of economic growth.

IMF cuts global economic growth by 0.1 pct to 3.40% for 2017 with bleak outlook on account of highly leveraged financial markets and BREXIT.

A report released from a UN group calls the global economy "fragile" and urges action on trade, tax and debt policies to improve economic growth. The United Nations Conference on Trade and Development's (UNCTAD) annual "Trade and Development Report" notes rising debt and inequality levels. The report warns that current economic challenges may be more difficult to manage than the 2008 global financial crisis.

KUWAIT ECONOMY

Despite higher budget expenditure and low oil price, Kuwait economy is expected to post 1.60% GDP growth during the year 2016. Kuwait government has awarded many Oil refineries & exploration related projects and have planned for major expansion of infrastructure. These strategic plans and its implementation are expected to generate greater economic activities. Due to higher government spending, more job opportunities are expected to be created and thus a drop in unemployment is very much possible as per latest survey.

Latest CPI numbers are showing a moderate drop in inflation. Central Bank of Kuwait is expected to hike Kuwaiti Dinar interest rate along with US Federal Reserve.

Kuwait plans to raise as much as $9.9 billion from international debt markets to help plug its budget deficit as lower oil price squeeze public finance.

Kuwait estimates expenditure for the 2016-17 fiscal year at 18.9 billion dinars and revenue is expected to be at 10.4 billion dinars. Non-oil revenue will make up 1.6 billion dinars of the total.

Kuwait rating is unchanged at AA by S&P and Aa2 by Moody's, the third-highest investment grade.

The plunge in oil prices has prompted a flurry of international bond sales from the six-nation Gulf Cooperation Council to finance widening deficits that the IMF says could reach $900 billion by 2021.

Kuwait continues its pegged exchange rate system to an undisclosed basket of currencies with a large US Dollar component.

KUWAIT STOCK MARKET:

Kuwait Stock market has underperformed on account of low oil price and poor economic outlook in the region, however, rebound in the oil price has helped KSE Index to post marginal gain by December 2016. The year 2017 could witness additional gains in the equity market driven by Government plan to boost spending.
The index managed to close the year 2016 at 5748, thus posting a gain of 2.37% year on year. The year 2016 high was 5775 and low was 4911.

Major risk for the stock market recovery could be increasing interest rates locally and a cut in the planned government budget expenditure.

REVIEW OF OPERATIONS

Retail Banking Division

The Bank's Retail Division continues its efforts to provide retail customers with the best-in-class banking services and products with a view to confirm and leverage its strong franchise in retail banking and satisfy its customers' requirements and expectations so that Al-Tijari would remain the bank of choice for all customers. Drawing on this, RBD took a number of initiatives during 2016 to boost such efforts. This included but was not limited to the Division's initiatives covering accounts, promotional offers and campaigns, e-channels, digital banking, service quality and product awareness campaigns.

Accounts and Promotional Offers

- The Bank launched the revamped prize scheme of Al Najma Account by increasing the value of quarterly draws that allow lucky winners to win great prizes ascending from KD 100,000 for the 1st quarter to KD 150,000 for the 2nd quarter to KD 200,000 for the 3rd quarter to KD 250,000 for the 4th quarter. The Bank launched marketing campaign to familiarize customers with such changes and attract new customers and to urge them maintain higher balances in this account. This campaign proved to be highly successful.

- The Bank also launched the new CBK British Airways MasterCards under the first loyalty program launched by Al-Tijari in cooperation with an international airline. The newly launched cards are the only British Airways co-branded cards available in Kuwait and the Middle East and offer the cardholders the opportunity to collect Avios when using such cards in addition to the bonus Avios they receive when successfully applying for the cards. The bonus Avios would vary based on the type of the issued cards i.e. World, Platinum and Prepaid Mastercards. Cardholders can use Avios on flights worldwide with British Airways and oneworld® airline partners including 14 international airlines such as Qatar Airways and Royal Jordanian and other airlines. In this context, the Bank launched a centralized marketing campaign to familiarize the existing and new customers with the benefits of these new cards which were highly commended by the Bank's customers and non-customers.

- Furthermore, the Bank launched the salary campaign targeting Kuwaiti customers whether newly recruited or in duty. Kuwaiti employees transferring their salaries to the Bank get the chance to enter the quarterly draw and win BMW X5. In addition and when transferring their salaries to the Bank, Kuwaiti customers get the chance to select either an instant cash gift or to obtain interest free loan. In this context, the Bank launched promotional campaigns to get the customers aware of this campaign and to attract new customers.

- The Bank, further, launched several marketing campaigns for Al-Tijari credit and prepaid cardholders to avail and get distinctive offers and discounts from a large number of renowned and reputable restaurants, hotels, malls and medical centers.

- In addition, the Bank has dedicated 6 fully equipped branches in Kuwait governorates to serve customers with special needs and trained a number of the employees on the sign language and prepared account opening forms and contracts that can be read in Braille. All these efforts are meant to communicate with this segment easily when processing their banking transactions and also help them to conduct their transactions smoothly and this reflects the Bank's role and mission to deliver the best banking solutions and services for all society segments.

E-Channels

- The Bank has activated the E-PIN feature for credit cards where a customer can get his credit or prepaid card E-PIN via a text message (SMS) sent to his mobile number registered when applying for the credit or prepaid card. The customer can also get the E-PIN by using the code attached with the card or by entering the code via the Bank's e-channels i.e. E-Banking or CBK Mobile app. Furthermore, the Bank enhanced the security features which provide protection to transactions conducted by customers outside Kuwait through CBK cards in countries using the swiping system and not applying the smart chip technology which is applicable to all Al-Tijari cards. These security features disallow any transaction to be processed through swiping system unless the customer notifies the Bank of his travelling outside Kuwait (particularly in USA and some East Asian countries which still adopt swiping system).

- The Bank, further, transformed many of the over-the-counter transactions to self service at a number of its branches to deliver an exceptional customer experience and minimize the cost of operations. The self service shall be applicable at all the Bank branches in 2017. The Bank also expanded the scope of its services offered as self service including account opening process, issuing of debit and prepaid credit cards and customers interacting live with a call center agent.

- Furthermore, the Bank launched Cardless Cash Withdrawal Service, a new service which allows customers to make cash transfer from their account to themselves or family and friends by sending SMS to any mobile in Kuwait through E-Banking or CBK Mobile App. The recipient will receive an SMS with a code on his/her mobile that will be used to withdraw cash through any CBK ATM machine without the ATM card.

- The transformation of Call Center to a Contact Center was accomplished during the year which demonstrates strong integrations between different Bank channels and the Contact Center. Such transformation will improve customer experience to formulate an engagement center that ultimately focuses on customer centric. In addition, a new personalized service has been implemented for Premier Banking segment by prioritizing their calls to be served within few seconds without the need of waiting for long. Our dedicated Customer Service Officers are ready to help and serve our valuable customers around the clock in a timely manner.

- The establishment of Customer Care Unit within the Contact Center was one of the key initiatives during the year to handle unsatisfied customers on fast-track basis with a view to maintain customer service excellence. The daily follow up process and problem resolution was improved to confirm that CBK does not compromise in customer satisfaction level which is a key factor of business success that needs to be measured all the way and across the board.

Service Quality & Product Awareness:

- Establishing (Customer Retention Unit) under service quality to retain customers and reduce turnover by gaining their trust and loyalty.
- Updating (evaluation form) including detailed staff evaluation for each member to provide full records containing: employee evaluations and quiz results quarterly.
- Adding live branch monitor through security cameras to ensure providing high quality interface and service to customers.
- Introducing and implementing Self – Service system which is working successfully in branches.
- Adding morning visits to branches to encourage staff discuss comments or complaints which improves employee performance.
- Quizzing contact center monthly to ensure staff's accurate information about CBK's products and services.
- Performing new evaluation specified for loans employee to keep them encouraged.
- Performing training and specified evaluation for the Bank branches' employees to ease their entry into the work environment.
- Implement new quiz system.

Corporate Credit Division

Corporate Credit Division is one of the main business lines which considerably contribute to the Bank's profitability. The Division aims at maximizing the Bank's returns and brining high quality assets to the credit portfolio by financing diverse economic sectors. The Division functions through three specialized Units, namely Contracting & Services, General trade and Investment & Real Estate to satisfy requirements of diverse companies and support their credit and financing needs by extending short-term facilities related to working capital, medium and long-term facilities pertaining to capital expenditures and investment requirements. In addition, CCD extends facilities for financing government's mega projects through syndication loan arrangements.

Corporate Credit Division remained focused on improving the quality of credit portfolio and reducing the percentage of non-performing loans (NPLs). The Bank successfully progressed in having lower than industry level NPLs ratio, reflected thereby in a substantial improvement in the Bank's loan portfolio quality. Amidst the depressed market conditions which continue to heavily weigh on cash flows of some corporate customers, Corporate Credit Division continued to provide assistance to its customers whether by restructuring some of their liabilities or extending the expiry dates of some credit facilities without compromising or violating the Bank's defined policy which aims at providing customers with high level of service, increasing quality assets and returns on such assets along with enhancing & boosting the professional competence of the Division's staff members.

Corporate Credit Division is equipped with highly skilled and full-fledged corporate credit team members who possess adequate expertise and know-how that enable them to identify and analyze credit requirements of corporate customers and render the required technical consultation on the methods of developing and improving their credit activities.

With a view to provide our corporate customers with a state-of-the-art banking package in one window, Corporate Credit Division has in place a dedicated center that entertain all requests of corporate customers. Furthermore, the Financial Analysis Unit which functions under Corporate Credit Division prepares financial analysis for the Division's customers along with furnishing accounts' officers with the statistics and information required for conducting the technical and credit studies and assisting in providing customers with financial and investment services and act as their financial advisors.

Within the Bank's endeavors to support economic growth in Kuwait and effectively contribute in financing the mega projects which help in enhancing and developing the infrastructure in Kuwait, CCD extended credit facilities through direct financing or by participating in syndication loans to finance a number of the government and quasi-government projects salient of which are the following:

- Design, construction, completion and maintenance of (Saad Al Abdullah Road) project with a contract worth KD 98 million.
- Construction, completion and maintenance of (North Regional Road) project for expanding and developing Al Salmi Road for a distance of approximately 22km with a contract valued at KD 149.5 million.
- Establishment of (Jurassic Field Gas Processing Plant in West Raudhatain) project which is regarded as one of the main expansion plans in oil and gas in Kuwait with a contract worth USD 377.6 million.
- Design, construction, completion and maintenance of (intersections and bridges on Al Nuwaiseeb Highway) project valued at KD 169.5 million with the Ministry of Public Works.
- Signing a syndication contract with (Kuwait National Petroleum Company) to contribute in financing the clean fuel project related to upgrading and revamping Al Ahmadi and Mina Abdullah Refineries with a ten-year contract totaling KD 1 billion and 200 million jointly extended by both conventional and Islamic banks. The Bank participated in this syndication loan by extending KD 80 million.
- Signing syndication contract to contribute in financing (contract for acquisition of ME Global) with a

two-year contact totaling USD 6 billion jointly extended by conventional and Islamic banks. The Bank participated in this syndication loan by extending USD 250 million.

- Financing maintenance of (the New Gas Turbines at Al Zour South Power & Water Distillation Station) project valued at KD 80 million.
- Financing construction, completion and maintenance of (roads and intersections on the western part of the 5th Ring Road) project worth KD 108 million.
- Financing construction, completion and maintenance of (roads and intersections on the existing part of the 7th Ring Road) project worth KD 66 million.

In order to keep CCD's customers abreast of the latest economic updates, review and assess their credit requirements and evaluate the extent of their satisfaction with the services offered to them, regular visits are being arranged to the customers by the concerned credit officers and members of the Senior Management in the Bank.

International Banking & Syndication Division

CBK's relationships with banks and financial institutions located in local, regional and international markets permit the Bank to support our customers and stakeholders in their cross border international banking activities.

International Banking and Syndication Division facilitates the Bank's proprietary and customers' cross border transactions by maintaining a broad base of reciprocal business activities with local as well as foreign banks and financial institutions. The Division contributes to the Bank's strategic mandate to diversify its geographical and sectoral exposure by participating in syndicated lending activities outside the country. Additionally, the Division supports various banking needs of multinational companies (MNCs) by providing credit facilities specifically tailored to meet requirements for their businesses in Kuwait.

In 2016, despite a challenging operating environment saddled with ample liquidity and increasing downward pressure on the margins, the Division has continued to increase its contribution to the Bank's over-all profitability. The Division succeeded in increasing its portfolio of funded and unfunded assets not only through participation in primary and secondary syndicated lending transactions but also through bilateral transactions. During the year, Kuwait Authority for Partnership Projects (KAPP) invited bids for various Public Private Partnership (PPP) projects in Kuwait. The Division started working with number of consortiums of international and local companies in providing facilities for such PPP projects. Further, the Division added a new revenue stream through a new funded product line viz., structured trade finance.

The Division shall strive to sustain the momentum gained by sourcing/ participating in similar transactions on an opportunistic basis based on a holistic risk-return analysis. The Division shall also endeavour identifying potential new revenue drivers for the Bank as well as focus on continuously improving operational efficiencies within the Division.

Treasury & Investment Division

Treasury's strategy during 2016, were to prioritize liquidity as well as asset & liability management. Treasury managed to achieve high growth in Fixed Income portfolio and have done appropriate hedging to minimize interest rate market risk. Treasury's active involvement in various products such as FX SWAP, SPOT & Forward helped achieve the budgeted profitability.

Treasury has used both domestic and international markets for funding the balance sheet as well as for managing the foreign exchange and interest rate exposures. Treasury managed to get success in switching many short term deposits to longer term from customers, thus the liquidity position is strengthened.

Treasury is equipped with high-tech technology with modern communication facilities, handles all major types of financial products, in line with customer needs and for managing its resources with effective compliance of regulatory requirements.

Treasury's major functions are handled by professionally experienced dealers through:

- **Foreign Exchange Desk:** Trading & covering in FX Spot/Forward & Swaps;
- **Money Market Desk:** Taking care of cash flow management, Inter-bank lending/borrowing, fixed income securities, liquidity and other related statutory ratio management;.
- **Corporate Desk:** Taking care of corporate client's requirements offering various types of Treasury products such as deposits, FX spot, FX forward, FX swaps, interest rate swaps, etc
- **Investment Desk:** Manage Bank's investment portfolio under various asset classes particularly domestic/ foreign equity investments.

Treasury is continuing its focus in the field of Corporate bond investments with the aim to diversify asset class and thereby to enhance portfolio yield.

Efficiency with strict compliance of regulatory requirements/ethical practice combined with innovative technology is the key for Treasury's success.

Risk Management Division

The Bank believes in undertaking risks associated with its business only after proper identification, assessment, management and adequate mitigation of potential risk factors. The material risks to which the Bank is exposed to are – credit risk, market risk, operational risk, liquidity risk, interest rate risk, reputational risk and strategic risk. **Risk Management structure and independence:** The Risk Management division of the Group is an independent and dedicated function which reports directly to Board Risk Management Committee and administratively to the Chairman. The division is responsible for assessing, monitoring and recommending strategies for control of credit, market, liquidity and operational risks and IT security risks. Specific personnel are assigned within the Risk Management division for overseeing each of these risks. The absence of any direct or indirect reporting lines or arrangements with other internal divisions and permanent membership in all of the Group's executive committees are amongst the factors which reflect the independent nature of Risk Management's operations and the central role it plays within the Group.

The Risk Management Division is sub divided into different units which assess, monitor and control different risks. **The Credit and Investment review unit** is responsible for pre-fact assessment of corporate credit, international banking including assessment of credit lines for various countries and banks and investment proposals as per the credit policy/investment policy as well as post fact analysis of corporate credit exposures. The Credit Review Unit is also responsible for updating and maintenance of risk grades of corporate credit exposures. In addition, the **Control Unit** which is part of Credit & Investment review unit, verifies and monitors the activities and functions carried out by Credit Administration department on an ongoing daily basis to ensure that credit dispensation is in compliance with the related approvals as well as conforming to internal and regulatory guidelines. In addition the Credit & Investment review unit is responsible for reviewing and updating the Credit policy of the bank at periodic intervals so as to ensure that the policy is attuned to the operating environment and is in line with regulatory guidelines. **The operational risk unit** is responsible for monitoring, measuring and reporting the operational risks of the Bank. Operational risk unit collects operational risk data through Risk & Control Self Assessment, KRIs, procedure reviews and reported incidents. A loss database is maintained and reported in the periodic risk management reports. Operational risk unit is also responsible for the bank wide insurance management and for coordinating the bank wide Business Continuity Plan and ensuring regular testing.

The Risk Policies and Analytics unit is responsible for monitoring market, liquidity, interest rate, strategic, reputational, compliance and legal risks. It is also responsible for calculating the economic capital for various risks, conducting stress tests, reporting these to the ALCO, BRMC, Board and the Central Bank, keeping the risk management policies up to date, and conducting regular meetings of ALCO and CIC for investments items. The unit is also responsible for analysis of all KSE listed shares for inclusion as part of acceptable list of collaterals and determining the applicable coverage requirements. The unit also prepares a monthly portfolio analysis report which is circulated to the ALCO members while a more detailed half-yearly portfolio analysis is put up to ALCO, BRMC and the Board. The unit also determines and monitors the strategy metrics comprising of various risk appetite parameters including macroeconomic variables.

During 2016 the division worked in co-ordination with FCD to get the bank ready for IFRS9 reporting which comes into effect from 2018. Stress tests were conducted on time and the results reported. Bank-wide BCP test was conducted successfully in Feb 2016. The methodology for conducting stress test was amended and made more robust.

The IT Security unit is responsible for ensuring that all information and equipment of the bank are secured from internal and external threats whether deliberate or accidental. IT Security ensures the implementation of security tools and access controls so that the bank's information is protected against unauthorized access and disclosures and the IT assets are kept safe.

The risk management framework includes a hierarchy of committees involving Directors of the Board and the executive management for approval and reporting purposes. The governance structure of the Bank is explained in detail elsewhere in this report.

Treatment of different types of risks:

The treatment of different types of risks by the Bank is elaborated hereunder.

a) Credit Risk

The Credit Policy and the Credit Risk Management Policy lay down the guiding principles for lending activities and the basis of measuring, monitoring and managing credit risks. The credit policy provides guidelines that establish the lending criteria and all credit decisions are made after giving due consideration to credit policy requirements. Continuous review and update of the credit policy is carried out to calibrate it with regulatory and business requirements.

The credit policy is supplemented by the credit risk management policy which establishes the infrastructure for credit risk management including tools for risk rating, portfolio analysis and independent reviews. Internal limits are also established for credit concentration and credit quality. Credit approvals are preceded by detailed due diligence on credit proposals including reviews that are independent from the risk taking units. The due diligence covers assessment of the quality of financial information, historical financial performance, future prospects, structure of facilities, their relevance to the business needs, management expertise, identifiable sources of repayment, available collateral, additional support available etc. In addition, comprehensive post approval reviews at the individual and portfolio levels are undertaken to effectively monitor / control the existing credit portfolio. The portfolio reports and post approval reviews are escalated to the management and the Board/Chairman.

The Bank introduced a revised obligor risk rating model during 2012. It utilises an advanced algorithm using both financial and non-financial parameters to generate an obligor risk rating. The system follows a scale of 1 to 11 with 1 being the best risk and 11 being the worst. The internal risk rating is used to drive the credit approval process. The obligor rating is calibrated to probability of default. Non-financial considerations are industry specific and thus allow more fine-tuned risk assessment for different industries. Maximum counterparty/group wise lending limits are applied to exposures according to regulatory norms for credit concentration.

Appropriate risk analysis ensures that the limits approved are commensurate with the risk profile of the borrower. Apart from individual lending limits, broader portfolio level exposure limits have been stipulated for perceived higher risk sectors and exposure to these segments are continuously monitored. Country limits, based on internal risk assessment and sovereign risk ratings by external credit rating agencies like Moodys and S&P, are in place to ensure adequate portfolio diversification in terms of sovereign ratings and geographies. The Division also implemented a sector risk assessment model allowing more granularity in sector classification.

The Bank also measures economic capital for credit risk including capital for name and collateral concentration under Pillar two of Basel III. Measurement of concentration risks uses a model that comprehensively captures name, sector and geographic concentration risks.

b) Market Risk

Market risk exposure for the Bank is evident in portfolios of equities and foreign exchange that are actively traded, as well as in other positions whose fair values are directly derived from market parameters.

Market risk limits are in place to control the equity and foreign exchange risks. Foreign exchange risks are monitored daily and controlled through currency-wise absolute limits as well as stop loss limits. Overnight regulatory limits that include overall absolute limits are strictly enforced.
The Bank also assesses the market risk through internally developed Value at Risk (VaR) measures. VaR is based on historical simulation over the relevant observation period and is computed as the maximum possible loss over the relevant holding period at the 99th percentile. Limits are in place for the maximum permitted VaR for the foreign exchange and equity positions. The VaR models are back tested annually to confirm their robustness. In addition, economic capital for market risk, including concentrations therein, is calculated regularly. During the year, in line with the change proposed by BIS in market risk calculation, economic capital calculations for market risk were changed and economic capital is now calculated from "expected loss" instead of VaR.

Investment proposals are subject to detailed due diligence including reviews that are independent from the risk taking units. Investments are classified under pre-defined asset categories and are subject to pre-approved limits for such categories. Further the Group's overall investment capacity and individual investments are restricted to stipulated limits and guidelines laid down by the Central Bank.

c) Liquidity Risk

The Bank manages liquidity risks that are evident in maturity mismatches and liability-side concentrations. Limits are in place for the control of liquidity risk and these include the maximum allowable cumulative mismatches. Internal alert limits are also laid down to ensure continued adherence to the regulatory limits. Liquidity risk management is further enhanced through limits that attempt to restrict concentration of deposits from sensitive significant depositors as well as products. Limits are also in place for mismatches in different time buckets thereby ensuring that maturing liabilities and assets remain largely matched. A detailed liability side analysis is conducted periodically to discern rollover patterns, identify core deposits, behavioural trends in short-term funds and correlations with macro economic variables.

The Bank's liquidity risk management policy also requires that proper liquidity planning is periodically conducted and that stress tests are performed based on scenario analyses. A detailed contingency plan also forms part of the liquidity management framework. Economic capital for liquidity risk under pillar two of Basel III using internally developed methodology is also measured regularly.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are being measured and monitored regularly against regulatory limits or internal limits that are progressively phased to reach the regulatory limits.

d) Interest Rate Risk

Interest rate risk is managed as per the guidelines laid down in the interest rate risk management policy. The majority of the assets and liabilities of the Bank mature and / or re-price within one year and hence there is limited exposure to interest rate risk. Interest rate risk is monitored with the help of an interest rate sensitivity monitor (IRSM) in which assets and liabilities are distributed in pre-defined maturity/re-pricing time bands. The Earnings at Risk (EaR) is computed by applying pre-defined rate shocks to the IRSM and this is compared against internal limits that define the Bank's appetite for this risk. Varied rate shocks for different time buckets/ currencies are used for calculating the EaR. In addition, the sensitivity of the economic value of equity is also calculated. Economic capital under pillar two for interest rate risk is measured regularly using an internally developed methodology.

e) Operational Risk

Operational Risk management is focused on identifying, assessing and minimizing the impact of risk events that may arise through inadequate processes, human error, system failures as well as external factors by using a range of assessment methods including Risk Control Self Assessments (RCSA) and a comprehensive review of group-wide procedures. An objective scorecard is used to assess the different operational risk areas based on pre-defined parameters and to grade them under certain categories. This gradation is used in the measurement of economical capital for operational risk, compliance risk and legal risk. Internally maintained loss data, consolidated principally from incident reporting channels, provides information on the frequency and impact of operational risk events. A group-wide business continuity framework is in place to tackle any unforeseen contingencies that aims to ensure that business continuity is achieved with minimal disruption to critical processes and systems.

Insurance management which is integrated into this framework facilitates prudent transfer of risks. Insurance coverage provides partial mitigation for operational risk. The operational risk management policy lays down general guidelines for insurance management including factors to be considered in structuring insurance policies, credit risk of insurer, definition of policy limits and deductibles, policy reviews and handling of claims.

f) Other risks

Policies are in place for other risks including strategic risk and reputational risk. These policies establish roles and responsibilities for various stakeholders in managing and controlling these risks. In addition, quantification methodologies are in place for measuring the economic capital for these risks.

Information Technology Department

2016 was a year in which CBK transformed many of the over-the-counter transactions to self service. This has minimized the cost of operations, and contributed to delivering an exceptional customer experience. Amongst the services that CBK now offers as a self-service:

1- SMS & Email Notification Management System.
2- Statement Printing
3- Issuing of Debit & Prepaid Credit Cards.

In addition, CBK has also introduced a one-of-a-kind account opening platform through which customers interact live with a call center agent via a self-service kiosk to fill out and process account opening requests.

In winter 2016, CBK has introduced a unique method for customers to send funds to any mobile number in Kuwait – subject to a daily limit of KD 500/-. The facility allows customers to use internet and mobile banking to send funds by the debit of their CBK account. The recipients will receive via their mobile phones a 16-digit token that can be used at any CBK ATM to cash the remitted funds.

CBK has also empowered its customer notification platform with Smartphone Push Notifications System which has a higher chance of delivery of standard SMS to customers even when they change their mobile phone's sim cards. This turned out to be a very convenient way for customers to stay notified when they travel.

Speaking about traveling, CBK has improved its fraud detection platform by registering the customer's travel dates to avoid common faulty fraud detections that may arise from false alarms due to unusual out of Kuwait card use. This travel plan registration systems ensure continuation of transaction approval until customer is back in the country.

The Bank has also adapted the Paperless Technology when it comes to processing transactions. CBK made this possible through robust and integrated image archiving and document-flow systems that were integrated with every Bank transaction.

In order to further boost the E-government initiatives to boost electronic payments, CBK is the first bank in Kuwait to introduce E-Government prepaid cards. A Card that will only work at selected governmental institutions.

CBK is also the first bank in Kuwait to sign an agreement with China Union Pay – a leading brand in the Payment Industry. This agreement entitles CBK to issue Union Pay branded cards to customers, and accept Union Pay cards on ATMs and POS.

Also earlier this year, CBK launched a platform to allow customers remit funds worldwide using Western Union. This service is enabled for customers using Internet and Mobile Banking services.

In order to make it easy for customers to contact our Contact Center, CBK has attached a handset connected to its Contact Center at every ATM machine.

For better identity, CBK has completed a project with the Ministry of Communication where calls originating from the Contact Center will always display its hotline number 1-888-225 at customers phones.

In 2016, CBK is the first bank to implement a complete end-to-end cash management solutions which includes ATM cash replenishment, cross-branch funds movements, and funds transport from and to Central Bank of Kuwait. This step had positive impact on our ATM availability due to decreased dependencies on third party companies to replenish ATMs.

CBK's Data Center has seen upgrades of various kinds. Servers and systems were upgraded for better efficiency taking in consideration power distribution, consumption and cooling efficiency.
On the workstation side, all operating systems were updated to the latest version phasing out obsolete and end-of-life versions.

In April 2016, CBK has launched the first in the Middle East Co-Branded credit card with British Airways. A complete loyalty system was developed to award customers AVIOS points as to when and how they use their cards. Automated feeds were established with Avios in the UK to enroll, and reward cardholders registered in this product.

In June 2016, CBK has been awarded the PCI-DSS certification which confirms that CBK is compliant with security standards when it comes to protecting cardholder's sensitive data. System Architecture, Storage and Encryption methodologies were implemented to ensure full compliance.

Operations Division

In continuation of its focus on "Customer Convenience & Delivery", Operations Division in 2016 has continued to provide best - in class - service to the customers of the Bank. The Division has successfully initiated and implemented improvements in processes within its different units:

Central Processing Department

Central Processing Department as engaged in streamlining and automating may processes which previously were being done manually. The major achievements during the year have been the automation of transferring payment instructions to local banks which are originated from our foreign correspondents, and also the automation of Standing Instruction payment messages. This greatly improved the turn around time and accuracy. The Department was able to revamp existing procedures aimed at achieving better control on reconciliation activities. Another main objective of the Department is to introduce paperless processes. The department also took over the accounting and Settlement function of Credit Card Operations.

Trade Services Department

A highly specialized technical department within operations requiring special skills in mastering the offered products of Letters of Credit, Import and Export, Letters of Guarantees, as well as Inward bills for collection. The Department also handles the newly added product of corporate APN's (against promissory notes). The Department has been constantly focusing on "cross training "and "on-the job training "to enable all the staff to be conversant with all available offered products.

Treasury & Investment Operations

Treasury & Investment Operations is responsible for processing of all financial market transactions such as:
Forex, Money market, Derivatives and Investment transactions which require a range of complex and skilled tasks and plays a key role in supporting the Treasury Department. Ongoing interaction is constantly taking place with internal IT Department and external Vendors to attain maximum system dependency. Our work environment led to the successful implementation of screen based interface, facilitated web based arching of settlement records which in turn simplified processes of audit and compliance.

Credit Administration Department

Being a critical unit for the Bank emphasis has been placed in accurate updating of credit facilities and documentation for the asset customers of the Bank. Efforts are on to automate processes and reduce manual efforts and provide to the Corporate Credit Department in timely manner. During year 2016, in intensive efforts in coordination with ITD were made to protect Bank's rights by developing and generating controls reports for better follow up on collaterals with expiry the dates which are mortgaged against extended facilities.

Procedure Documentation Department

The Department increased its staff strength with a view to taking up the challenging task o documenting procedures giving emphases on addressing the deficiencies in existing procedures, as indentified by audit teas and to meet regulatory requirements. The Department has successfully managed to release many important procedure documents during the year and also is in the process of drafting procedures for different business areas of the Bank.

Digital Banking Unit

The Digital Banking Unit has implemented multiple services across various channels to serve CBK customers through online banking for the individual as well as the corporate customers. The Western Union Money Transfer facility was introduced on the online banking as well as mobile banking. Other services have been implemented to serve the Corporate Online Banking customers such as: customs online payment, eVouchers & e-Notifications services, LG & Managers Cheque Online Authentication.

In addition, a new online user sign-up process was implemented for the Corporate Online Banking customers which allows them to submit their enrollment via online and instantly activate the new user through any CBK branch instead of waiting for several days to verify and approve their documents.

Operations Administration Department

A new Department created under Operations Division taking over the operational functions of the branches by creating OPCU "Operations Processing Control Unit" The Unit purpose is to have more control over branch operational work while at the same time reducing the pressure on the branches to concentrate on customer service and marketing. Functions handled by this Unit are Retail Guarantees, remittances, Individual Account Opening, business account opening, inward and outward KECCs system, CBK cheque approval, salary payments, Standing Instructions and collateral setup, single transfer, EMV payment, and cash withdrawal above KD 5,000 on self service. More functions are added for the Unit as the Bank shifts to more customer self service (virtual) banking.

Human Resource Department

Employing the best human resources strategy is an investment in the Bank's capability which will contribute directly to the delivery of the organizational strategic objectives and heavy premium on having a highly committed and competent workforce. From this standpoint, Human Resources Department in 2016 has adapted a better management practice and is in par with technology to live up to CBK's vision, mission and values. The Department has moved ahead in reaching the next level of people management – by being more strategically involved with the overall Business success. As such, our current efforts have increased the percentage of Kuwaitis in the bank to 67% of the total workforce.

Recruitment

Our values in Commercial Bank of Kuwait is to identify staff as a key resource for success. It is our vision to become among the best employer within the financial sector. As such, year 2016 saw the Bank implementing the following:

- Job Applications has been automated to enhance the recruitment process more effectively.
- LinkedIn: CBK's LinkedIn page has been utilized more effectively. In which, CBK followers has gone from 900 to 5,954 followers.
- Corporate Social Responsibility:
    - Part time opportunities: Jobs are available for those seeking a part-time job within the banking sector (i.e. Clerk Retail Banking).
    - Summer Jobs: On Job hiring for university candidates that are seeking for banking knowledge.

Training Department

The Training Department now known as Learning & Development Unit; is constantly thriving in delivering and providing its employees with the best learning tools. As such, the main accomplishments for 2016 are as follows:

1) **Al Tijari Academy:** is an educational platform that focuses on training its existing and new recruited employees. As such the Academy is divided into two parts:
    - Part 1: Class room training – Providing the right knowledge and skills to all employees by engaging them on a training program that is required to achieve their overall progression within the Bank.

    - Part 2: On Job Simulation Branch – this is fully equipped with the existing Branch logistics as a real life simulation.

2) **Training Programs:**

    - **Executive Programs:** CBK has focused on training its senior and executive employees - by engaging them in intense leadership programs in order to enhance their career aspirations.
    - **Technical Training Programs:** New initiatives are implemented for a successful career management leading to improved performance of the individual and the organization.
    - **Soft Skills Programs** are designed based on the positive organizational psychology; by tips and exercises to generate positive emotions and mindsets to have an impact not only at work, but in their personal lives.

Talent Management

Is a new initiative that has been launched in 2016, a program that entails developing the banks Successors/High potentials in filling key business leadership positions at CBK. The process of this program helps in Identifying Successors/high-potential employees, by evaluating their skills through an assessment tool – in order to assess the gaps that exist between the current employee's competencies and the target position requirement.

Performance Appraisal

The performance management system was implemented as a part of Employee Self Service Portal (MYSTRO) hence HRD will eliminate human intervention and error while insuring that the process is well implemented and related reports are generated as per Top Management requirements.

The appraisal process via the portal enables efficient workflow process which also helps in identifying the training need analysis (TNA) of the Bank. The Key Performance Indicators (KPIs) were added to this year's Performance Appraisal in order to track employee's performance against set targets.

Staff Administration Unit

Ensuring CBK staff's organizational operations are provided to them in an organized and efficient manner. This unit's tasks relate to maintaining staff records including various personnel actions and staff filing for an up-to-date record of details.

Internal Audit Department

The Bank has a well-established Internal Audit Department (IAD), which is responsible for independently testing and evaluating all internal controls and ensuring that Operations and Business Units adhere to internal policies, procedures and regulatory and legal requirements. The audit function also proactively recommends improvements in operational processes and service quality. The internal audit function reports directly to the Board Audit Committee which is accountable for monitoring the overall performance of the function. The Bank's internal auditors are not assigned any executive responsibilities in order to maintain their independence and impartiality in fulfilling their duties and responsibilities

Since 2015, Internal Audit started utilizing an audit tool "ACL" effectively and extensively in identifying exceptions and controls weaknesses and generates "Continues Monitoring Reports" to Senior Management. The Automation of audit agreed corrective actions and related follow-up with all business Areas is currently done through "Auto Audit" software what was among the major achievements for Internal Audit Department.

The Internal Audit also provides the management with advisory services for several issues related to financial statements, operations, business process and corporate policies and procedures.

Finally, the Internal Audit Department believes in the importance of continuous education for its staff members and encourages IAD staff to study and obtain professional audit certificates.

Compliance & Corporate Governance Department

Compliance & Corporate Governance Department is an independent function which reports directly to the Board Corporate Governance Committee. Among the major roles of CCGD is to help the Bank to avert any risks that may arise from non-compliance with the instructions issued by regulatory authorities, basically the Central Bank of Kuwait. Compliance & Corporate Governance Department reacts and counters to these risks by continuously verifying that the Bank has in place the required policies and procedures for satisfying all regulatory requirements. To this end, the Department conducts regular reviews, issues the required reports in this regard and refers the same to the Board Corporate Governance Committee which presents such reports to the Board of Directors along with submitting recommendations. Moreover, the Department endeavors to take the necessary arrangements to enhance the actions and procedures adopted by the Bank and cope with all developments associated with AML & CFT. Additionally, the Department is tasked with monitoring and following up the extent of the Bank's compliance with sound Corporate Governance rules. The following units function under Compliance & Corporate Governance Department:

1. Compliance Unit is responsible for taking the required actions and procedures that would warrant the Bank's compliance with the domestic regulatory requirements covering all aspects associated with the banking business so that the Bank can avert risks that may result from non-compliance with the same. For this

purpose, Compliance Unit helps the Bank's diverse departments to enrich their awareness and understanding of regulatory instructions and application thereof for complying with such regulatory requirements.

2. AML Unit assumes the responsibility of applying the prevailing legislations and regulatory instructions applicable on AML & CFT as well as the implementation of the related international standards and coping with the diverse developments on the domestic, regional and international levels. The Bank endeavors to take all necessary actions so as not to be used as a channel for processing suspicious transactions and to avert any risks that may arise from non compliance with the above legislations, instructions and standards.
3. Corporate Governance Unit undertakes the responsibility of applying regulators' instructions on the sound Corporate Governance rules where the Unit monitors and verifies the Bank's application of and compliance with the said rules. Corporate Governance rules cover disclosure & transparency standards, an important issue which the Bank endeavors to fully comply with.

Compliance & Corporate Governance Department coordinates and cooperates with the Bank's diverse departments on the one hand and with the regulatory authorities on the other hand in order to ensure that regulatory requirements are available and are implemented and adhered to by the Bank's diverse departments as and when required.

The year 2016 saw several challenges which required Compliance and Corporate Governance Department to intensify its efforts to properly cope with such challenges and help the Bank avert any risk that may arise from failure in confronting these challenges. Here below are some of these challenges:

- The increased procedures to be taken by the major international financial institutions and banks to verify the efficiency and effectiveness of AML & CFT systems adopted by their correspondent banks. This comes within the aggressive de-risking practices adopted by some of these institutions and banks.

- Enhancing and upgrading the applicable automated systems with a view to monitor all the Bank's operations to verify its authenticity and to ensure that suspected money laundering and terrorism financing transactions are not processed through the Bank. Drawing on this, the Bank enhanced its capabilities in this regard by upgrading its related automated systems and hired additional staff specialized in this area.

- "Foreign Account Tax Compliance Act" requirements and related ministerial resolution where the Bank adopted the required procedures for compliance with such requirements and ministerial resolution, the most important of which were the amendments introduced to accounts opening form and "Know Your Customer" form and other procedures applicable with the Bank. Furthermore, the Bank entered into agreement with an international audit firm to act as the Bank's consultant for implementing the requirements of the said Act and related ministerial resolution. In addition, an automated system has been devised to facilitate the process of monitoring compliance with the said Act and resolutions issued in this regard. The Bank also engaged an audit firm accredited by the Ministry of Finance in Kuwait to validate and reconcile the reports and certificates pertaining to FATCA as per the related ministerial resolutions.

- Handling and acting upon all instructions issued by the regulators particularly those issued during 2016 along with upgrading the in-house monitoring system to swiftly resolve any remarks or observations raised by those regulators and take up the necessary actions to avert recurrence of such remarks.

- Enhancing all aspects associated with the implementation of Corporate Governance rules and disclosure requirements at the Bank.

- Reinforcing Corporate Governance & Compliance culture and awareness among all staff members in the Bank by circulating the regulatory instructions and communicating with them to enrich their understanding of such instructions and application mechanism, not to mention the diverse awareness tips e-mailed to all staff members from time to time as well as the workshops and training courses intended to be arranged by the Department.

Legal Department

The Bank's in-house Legal Department assumes an effective role in providing the Bank's diverse departments and divisions with the professional legal services in such a way that satisfies their requirements, safeguards the interests of the Bank and its shareholders and customers, maintains its corporate image and helps the Bank to compete and outperform its local peers for having a leading edge and enhancing its important role and position in banking industry. Thus, Legal Department endeavors, through a professional working environment and clear objectives, to swiftly render the required legal services in such a professional manner and this was clearly manifested in 2016.

The Legal Department aims to have in place an efficient team who possess technical know-how of all legal affairs and able to effectively & efficiently adopt and deal with the Bank's plans and strategies. The Legal Department shall continuously endeavor to enhance the capabilities of all its employees through training and development.

Furthermore, Legal Department endeavors to provide the Board of Directors, Executive Management and the Bank's diverse departments and branches, expeditiously and on accurate and flexible basis, with the required legal advice and opinions in accordance with the provisions of laws, regulations and regulatory instructions in force and the related amendments and changes that may be introduced thereto from time to time.

The drafting of the legal contracts and documents related to the Bank's business always come among the Department's priorities for organizing the relationship between the Bank and its customers through appropriate and well-balanced legal framework. However, and when necessary, the Department endeavors to update the Bank's forms and documents from legal perspective to cope with the developments seen in banking industry and to meet the Bank's requirements and its customers' needs.

Moreover, the Department represents the Bank before judicial bodies and investigation authorities and all related government and non-government entities in Kuwait. Legal Department endeavors to successfully assume this primary and essential role.

Additionally, the Department works closely to put in place an effective mechanism to rapidly entertain and respond to the Bank diverse departments' requests to obtain legal services and provide them with the proper solutions taking into account the related legal rules and regulations as well as challenges and developments and the increasing competition seen in banking industry.

The Department has also an objective which is similarly important as those mentioned above, namely to contribute in getting staff members, particularly the new recruits at the Bank's different departments and branches familiarized and aware of the legal issues and matters pertaining to banking business.

Advertising & Public Relations Department

Advertising and Public Relations Department continued its great efforts during 2016 for underlying and demonstrating the Bank's corporate social responsibility initiatives. These efforts were recognized with the Bank receiving the 2016 GCC-CSR Award for Private Sector Corporation where the Bank was honored at the sideline of the 33rd session of the Council of Ministers of Labor & Council of Social Affairs of Gulf Cooperation Council (GCC) for Arab States which was held in Riyadh. The Bank's "Hawwen Alihom" Campaign launched 5 years back has been selected and named as the 2016 pioneering CSR project. This innovative campaign was meant to help construction workers and road cleaners by distributing gifts which satisfy their requirements and benefit them while working under tough weather conditions. The campaign also aims to share this segment the celebration of auspicious occasions and feasts to bring happiness to their hearts and draw smile on their faces and this reflects the Bank's belief in the main role of this segment in preserving the environment and keeping it clean. Within its ongoing activities related to "Hawwen Alihom" Campaign, the Bank launched new initiative entitled "Suhoorkom Alina/ Your Pre-Dawn Meal From CBK" to distribute pre-dawn meals to road cleaners and construction workers at their work locations during the Holy Month of Ramadan.

Furthermore, Advertising & PR Department assumed a prominent role during the year 2016 by supporting and patronizing the activities organized by the six Governorates of Kuwait (Capital, Hawalli, Farwaniya, Ahmadi, Mubarak Al- Kabeer and Jahraa). Stemming from the Bank's belief that its success and community development go hand in hand, the Bank offered financial contributions for each Governorate to support all social, cultural, educational and sporting activities organized by each Kuwait Governorates.

Within its continued efforts targeting the revival of Kuwaiti heritage, Advertising & PR Department launched its heritage campaign "Ya Zeen Turathna" for the fifth year in a row. This campaign aims to revive the old Kuwaiti heritage and get today's generations reminded of the worth-highlighting traditions of Kuwaiti ancestors. The campaign achieved great success as it covered numerous activities for the revival of the old Kuwaiti heritage salient of which was the Exhibition "Freej Al-Tijari" that the Bank inaugurated in a number of Malls to provide the visitors and the public with important information on Kuwaiti heritage in addition to the visits the Bank arranged to some schools and other related activities and events. At the end of such events, the Bank organized gala evening in Al Shaheed Park that witnessed cultural activities to get the attendees familiarized of some traditional Kuwaiti crafts where they enjoyed the old Kuwaiti art.

In celebration of Kuwait National & Liberation Days, the Bank decorated and illuminated its Head Office with pieces of art selected from its annual calendar which were highly commended by the public as the Bank's Head Office was marked by elegant decorative touches that reflected the old Kuwaiti heritage. The Department continued to share the various society segments their celebrations of the different occasions where the Bank shared the patients of Palliative Care Center and Kuwait Cancer Control Center's residents their celebration of Kuwait National Days. The Bank also rejoiced Gergiaan with children with Down Syndrome and the people hospitalized in Al-Babtain Center for Burns and Ibn Sina Hospital to draw smile on their faces and bring happiness to their hearts on this happy occasion.

During the Holy Month of Ramadan, the Department prepared a social program that covered a number of philanthropic and humanitarian activities and events which usually mark this blessed Month.

Within its humanitarian activities which demonstrate voluntary social work, the Bank organized a blood donation campaign that saw high participation by the Bank's staff members. In addition, the Bank offered contributions to a number of civil society institutions.

Furthermore, and as an ongoing practice every year, the Bank issued its annual calendar which consistently highlights the old Kuwaiti heritage and became a distinctive feature of the Bank's rich record of activities targeting the revival of the old Kuwaiti heritage. The paintings of the Bank's annual calendar clearly mirror and depict the simple life of our ancestors and forefathers in the past.

Within its endeavors to proactively interact with all its customers and the public through the diverse means of audio visual communication, the Bank launched its TV commercial "Keep Your Thoughts Tijari" on the occasion of the Holy Month of Ramadan and it was aired in this blessed month.

As for the in-house activities, Advertising and Public Relations Department continued its successful and active cooperation with the Bank's diverse departments and staff members by organizing health awareness campaigns and promotional activities for the banking services and marketing offers the Bank continuously provides to its customers.

Recognizing the importance of modern social media in receiving and responding to the queries of customers and the public and posting their opinions, the Bank activated Al-Tijari WhatsApp Service by assigning a number for this service. Moreover, and through its social media networks, the Bank continued to post all its activities, products and services which were highly commended and hailed by the followers.

As the Bank's social responsibility covered various and extensive activities, Advertising and Public Relations Department issued a booklet highlighting all societal activities and events organized and patronized by the Bank during the year 2016.

CORPORATE GOVERNANCE RULES AND SYSTEMS

First: Introduction

Commercial Bank of Kuwait follows the instructions issued by the Central Bank of Kuwait and the international standards issued by Basel Committee on Banking Supervision when applying Corporate Governance rules and systems. As an essential part of its commitment to the highest standards of Corporate Governance, the Bank applies set of regulations, bylaws and policies which aim to enhance Corporate Governance principles and promote Corporate Governance culture within the Bank.

During the year 2016 and within its efforts to strengthen its Corporate Governance practices, the Bank continued its policies and procedures with a view to effectively apply the standards and instructions pertaining to Corporate Governance rules to safeguard the Bank, its rights and the rights of its shareholders, depositors, customers, creditors, staff members and stakeholders. The Bank has in place a well-defined Corporate Governance structure that will guarantee that the existing systems, regulations and policies applicable at the Bank are in compliance with the Central Bank of Kuwait's requirements.

The Bank adopts the utmost degree of transparency and discloses all material and significant information in compliance with the instructions issued by Capital Markets Authority and Kuwait Stock Exchange. The Bank also posts this information on its website which also contains Corporate Governance rules as applicable within the Bank.

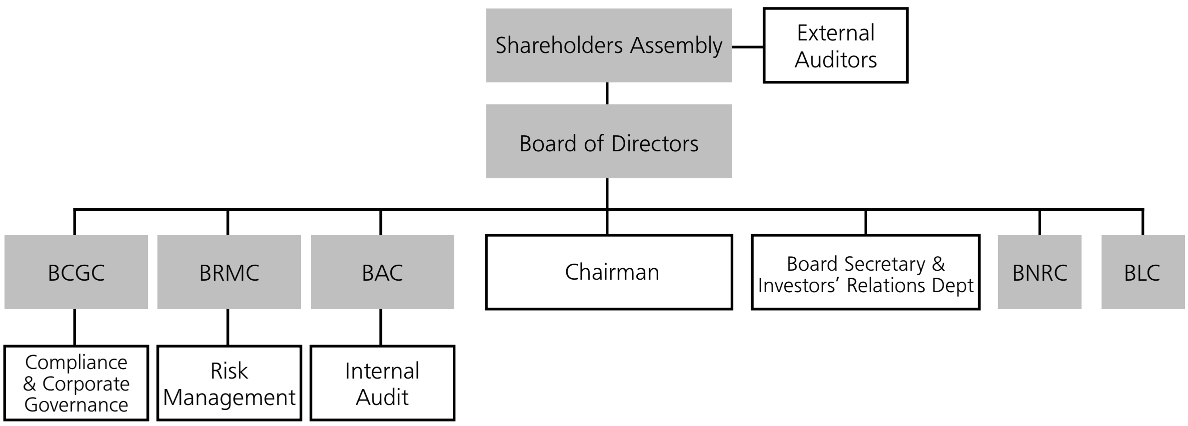
Second: Shareholders with a Percentage of the Bank's Share Capital

Presented below is the shareholders with a percentage exceeding 5% of the Bank's share capital based on the factual details contained in shareholders register as at 31/12/2016:

Al-Sharq Holding 23.221%

Third: Corporate Governance Structure

The Bank believes that it is pivotal to design the Corporate Governance framework in a way that will include adequate & effective supervision tools on the Bank's business to advocate excellence in Corporate Governance. This framework is regularly reviewed and updated to reflect any developments that may arise in Corporate Governance. The following hierarchy illustrates the general framework of Corporate Governance structure.



Fourth: Board of Directors and its Main Responsibilities & Key Achievements

The Board of Directors elected in the General Meeting by the shareholders through secret ballot for a term of three years is composed of 10 Members. The Board of Directors, collectively, has various qualifications, experience and specialized skills and possesses adequate knowledge and expertise relevant to financial activities including financing, accounting, lending, and bank operations. Furthermore, the Board of Directors has adequate knowledge and know-how on strategic planning, Corporate Governance, risk management, internal controls, legal & regulatory environment and the Board has also reasonable understanding of local, regional and global economic developments.

Presented below is a synopsis on the Bank's Board Members:

Mr. Ali Mousa Al Mousa – Chairman

Mr. Ali Mousa is a Kuwaiti national holding bachelor degree in Management 1970 /American University of Beirut. Mr. Ali Mousa possesses long experience and has occupied many positions salient of which are the following:

- Assistant Under-Secretary, Planning Affairs, Ministry of Planning during the period from 1976 to 1982.
- Participated in setting up the Central Internal Audit Function in Kuwait Petroleum Corporation in 1984 and managed the same during the period from 1984 to 1992.
- Deputy Governor of the Central Bank of Kuwait during the period from 1992 to 1998.
- State Minister of Planning & Administrative Development during the period from 1998 to 1999.

In addition, Mr. Al Mousa was a Member in councils, board of directors and committees such as the Supreme Planning Council, College of Commerce, Economy and Political Sciences Council (Kuwait University), Industry Development Committee and Supreme Education Council, Center of Gulf and Arabian Peninsula Studies (Kuwait University), etc. In addition to this, he had significant contributions in several economic and social development action-oriented committees, councils and forums.

Mr. Ali Mousa was a chairman of the board and member in the board of directors in a number of banks, companies and institutions within and outside Kuwait and he is now a Member in the Board of Directors in Kuwait Clearing Company.

Mr. Ali Mousa holds the position of the Bank's Chairman since 29/4/2012 and he is the Chairman of the Board Loans Committee.

Sheikh / Ahmad Duaij Jaber Al Ali Al Sabah - Vice Chairman

Sheikh / Ahmad is a Kuwaiti national holding bachelor of Economy and Finance May 2000 / Bentli University, USA and Master in Management January 2008 / from Kuwait Maastricht Business School. Sheikh / Ahmad held the following positions during his tenure.

- Financial analyst in Kuwait Petroleum Corporation during the period from 2001 to 2003.
- Credit analyst in Commercial Bank of Kuwait during the period from 2005 to 2010.
- Investment Manager in Tijari Investment Company during the period from 2010 to 2012.

Sheikh / Ahmad Al Sabah is the Chairman of Al-Tijari Financial Brokerage Company.

In addition to being a Member in the Bank's Board of Directors since 29/4/2012, he is the Chairman of Board Corporate Governance Committee and is also a Member in the Board Loans Committee.

Mr. Abdulrazzaq Abdulqader Al-Kandari

Mr. Abdulrazzaq is a Kuwaiti national holding bachelor of Political Sciences 1966 / Cairo University. Mr. Abdulrazzaq possesses long experience in political and diplomatic field where he was the Ambassador of Kuwait in many countries such as:

- Syria during the period from 1981 to 1985.
- Egypt during the period from 1985 to 1992.

- Spain during the period from 1992 to 1995.
- Lebanon during the period from 1995 to 1998.
- United Arab Emirates during the period from 2004 to 2006.
- Switzerland during the period from 2006 to 2008.

Furthermore, Mr. Abdulrazzaq was a Board Member in Beirut Tower Company (Lebanese Co.) during the period from 2004 to 2007.

Mr. Abdulrazzaq is a Member in the Bank's Board of Directors since 29/4/2012 and he was the Bank's Deputy Chairman during the period from 29/4/2012 to 4/4/2015. Mr. Abdulrazzaq is now the Chairman of the Board Nomination & Remuneration Committee and is also a Member in the Board Loans Committee.

Mr. Abdulrahman Abdullah Al-Ali

Mr. Abdulrahman is a Kuwaiti national holding bachelor of Mechanical Engineering 1975 and Master in Business Administration/ Finance & Investment 1979/ Weskans University, USA.

Mr. Abdulrahman is an experienced board member offering 30 years of experience in investment and projects financing mostly acquired during his work at Gulf Investment Corporation, where he held the position of Senior Deputy Chairman, besides being a Board Member in Industrial Bank of Kuwait during the period from 2010 until 2011.

Besides being a Member in the Bank's Board of Directors since 29/4/2012, he is the Chairman of the Board Risk Management Committee and is also a Member in the Board Corporate Governance Committee.

Mr. Bader Sulaiman Al-Ahmad

Mr. Bader is a Kuwaiti national holding a bachelor of Accounting 1980 / Kuwait University and a Master in Business Administration 1983 / USA. Mr. Bader is an experienced board member and has occupied diverse positions including the following:

- Accounting Controller / Civil Service Commission (1983 – 1985).
- Member of the Saudi Organization for Certified Public Accountants in Saudi Arabia (Riyadh) No. 212 on 14/9/1407H.
- Analyst of Companies' balance sheets / Kuwait Stock Exchange (1985 – 1986).
- Deputy Manager, Catering Department / Kuwait Aviation Service Company (1986 – 2002).
- General Manager, United Poultry Company (2007 – 2008).
- Manager, Safway General Trading & Contracting Company since 1989 to date.
- Deputy Chairman of Commercial Bank of Kuwait during the period from 7/4/2010 until 11/5/2010.
- Chairman of Commercial Bank of Kuwait during the period from 11/5/2010 until 23/3/2011.
- Board Member in Commercial Bank of Kuwait during the period from 23/3/2011 until 29/4/2012.
- Board Member in Securities Group Company since year 2000 to date.

In addition to his responsibilities as a Member in the Bank's Board of Directors since 25/6/2013, Mr. Bader is the Chairman of the Board Audit Committee and is also a Member in the Board Nomination & Remuneration Committee.

Dr. Arshid Abdulhadi Al-Houri

Dr. Arshid is a Kuwaiti national holding bachelor of Law & Legislation from Kuwait University in 1986 and high diploma in Administrative Law 1993 -1994 from the Police Academy - Egypt and he also held Master in Administrative law 1996 / Cairo University - Egypt and a PHD in law (public law – Administrative law) 2001 /

Ain Shams University - Egypt. Dr. Arshid experience extends to several years during which he occupied a number of positions including the following:

- Manager, Legal Department – National Guard (1994 – 2007).
- Advisor to His Highness Head of Kuwait National Guard (2007 – 2008).

Dr. Arshid was also a Board Member in Tijari Investment Company- CBK Capital from 2010 – 2013. In addition, he was seconded for training in Kuwait University – College of Law during the period from 2012 – 2013.

Besides being a Member in the Bank's Board of Directors since 6/7/2013, he is a Member in both the Board Audit Committee and the Board Nomination & Remuneration Committee.

Mr. Musaed Nuri Al-Saleh

Mr. Musaed is a Kuwaiti national holding a bachelor of Business Administration / Suffolk University, USA. He also obtained fellowship of Harvard University, (Harvard University's Center for International Affairs).

Mr. Musaed possesses experience exceeding 18 years in diverse areas such as investment, advisory services, real estates, banks and management of companies.

- He is now the Deputy CEO in MASS United Trading & Contracting Company.
- Former Deputy Chairman and the CEO - National Projects Holding Company.
- Honored by World Economic Forum (Davos) being one of the young global leaders.
- Member in Young Presidents' Organization over the past ten years.
- Former Board Member in Kuwait Society for the Handicapped.
- Banking experience obtained from working with a number of banks such as Banque Baring Brothers and First International Merchant Bank.

In addition to being a Board Member in Commercial Bank of Kuwait since 30/9/2014, Mr. Musaed Al Saleh is a Member in both the Board Loans Committee and the Board Risk Management Committee.

Mr. Hazem Meshari Al-Khaled

Mr. Hazem is a Kuwaiti national holding Bachelor of Science in Business Administration 1996 - American University, Washington, D.C. in addition to advanced training courses in accounting, credit and financial analysis.

Mr. Hazem possesses an excellent professional experience in management area at the level of board of directors as well as, executive management which was acquired during his tenure in the following institutions:

- General Manager in Al-Khaled Aluminum Company (2000 to 2005).
- The CEO – Al-Khaled Companies Group (from 2005 to date).
- Board Member in Kuwait Dairy Company (from 2005 to date).
- Board Member – Real Estate Financing Company (Al-Tashilat) during the period from 2008 to date.

In addition to being a Member in the Bank's Board of Directors since 12/5/2015, he is a Member in both the Board Audit Committee and the Board Corporate Governance Committee.

Ms. Rasha Yousef Al-Awadhi

Ms. Rasha is a Kuwaiti national holding a Bachelor of Accounting & Auditing 1992 / Kuwait University. Ms. Rasha is also Certified Accountant, Certified Securities Trader, Arbitrator, Certified International Investment Analyst, Certified Investment & Derivatives Auditor and Certified Internal Auditor. She is a member of the Kuwaiti Association of Accountants & Auditors.

Apart from her higher academic qualifications & credentials, Ms. Rasha possesses long experience in investment field where she has occupied diverse positions including the following:

- General Manager - First Kuwaiti Educational Services Company since 2010 to date.
- Senior Vice Chairman – Housing Finance Company (ISKAN) since 2006 to date.
- Deputy Head – Operations / Global Investment House (2000 to 2006).
- Assistant Deputy Head - Operations / Global Investment House (1998 to 1999).
- Senior Officer in Kuwait Investment Company (1997 to 1998).
- Investment Officer in Kuwait Foreign Trading Contracting and Investment Company (KFTCIC) (1992 to 1996).

In addition to the above, Ms. Rasha is currently holding the following positions:

- Board Member in Iskan Oman Investment Company and Head – Audit Committee in the Company.
- Member in Investment Committee of Housing Finance Company.

Ms. Rasha is a Member in the Bank's Board of Directors since 4/4/2015 and is also a Member in both the Board Corporate Governance Committee and the Board Audit Committee.

Ms. Mona Mousa Al-Sarraf

Ms. Mona is a Kuwaiti national holding a Bachelor of Arts, English Major 1987 / Kuwait University. She possesses long experience in banking and financial business in Kuwait where she held the following positions:

- Advisor, Private Banking Department – Kuwait International Bank (May - September 2011).
- Head, Private Banking and Assistant General Manager – Private Banking Group / Burgan Bank (1998 - 2010).
- Manager, Customer Services – Kuwait Foreign Trading Contracting and Investment Company (KFTCIC) (1993 – 1995).
- Manager, Operations - Banking Services Section / Al Ahli Bank of Kuwait (1987 – 1992).

In addition to being a Board Member in Commercial Bank of Kuwait since 4/4/2015, Ms. Mona is a Member in both the Board Risk Management Committee and the Board Loans Committee.

Fundamental Duties & Responsibilities of the Board of Directors

The Board of Directors assumes full responsibility of the Bank. This will cover overseeing the Bank's strategic objectives, approving action plans, setting up the Bank's risk appetite, Corporate Governances principles, approval of policies and building up the public trust in the Bank's management in addition to the active contribution in organization of the Bank's business. Further, the Board of Directors bears responsibility pertaining to the Bank's financial soundness, safeguarding the interests of shareholders, depositors and other stakeholders with emphasis on risk management and governance, enhancing internal control systems, internal & external audits and other responsibilities shouldered by the Board under laws, regulations and regulatory instructions.

Key Achievements of the Board of Directors for the year 2016

- Review and update the Bank's strategy.
- Continued review of the Bank's organizational structure along with introducing the appropriate amendments on the same in consistency with the Bank's strategy and objectives.
- Review and approval of the Bank's interim & year end financial statements.
- Review of Capital Adequacy and stress testing related reports.
- Review and update the risk management & risk appetite policy applicable within the Bank.
- Review and monitoring of the regular reports pertaining to the Bank's diverse business activities.

- Review and approval of the Board of Directors' Bylaws.
- Review and approval of the Board Loans Committee's Bylaws.
- Review and approval of all policies, bylaws, proposals and the reports received from the Board committees.
- Review of the regular reports pertaining to duties & functions of the Board committees along with monitoring the duties of such committees.
- Review & monitor the performance of the credit & investment portfolios.
- Approving the independent assessment of the Board of Directors and the Board Members' performance.
- Approving the performance appraisal of the CEO.
- Following up the implementation of FATCA requirements.
- Review of the External Auditor's ICR report for the year ended at 31/12/2015.
- Following up the application of IFRS9 requirements.
- Approving the Bank's 2017 budget.

Fifth: The Board Committees, their Main Duties & Responsibilities and Key Achievements

Within the process of enhancing the principles of Corporate Governance at the Bank, CBK formed 5 Board Committees out of which 4 Committees oversee the implementation of the diverse aspects relevant to Corporate Governance in addition to the BLC which handles all issues related to credit facilities portfolio. Brief description on the functions, responsibilities and authorities of each of the above Committees is presented below:

Board Corporate Governance Committee	
Composition	• Sheikh / Ahmad Duaij Al Sabah – Chairman, BCGC • Mr. Abdulrahman Abdullah Al Ali • Ms. Rasha Yousef Al Awadhi • Mr. Hazem Meshari Al Khaled
Main Functions & Responsibilities	- Prepare and update comprehensive Corporate Governance Manual to be approved by the Board of Directors and posted on the Bank's homepage on the internet. The manual shall include, as a minimum, the Central Bank of Kuwait's rules and instructions on Corporate Governance. - Verify the extent to which the Bank is in compliance with the rules and controls contained in the Corporate Governance Manual by conducting an annual assessment of such rules & controls and reporting the same to the Board of Directors. - Propose any amendment to be introduced to the Bank's Articles of Association in fulfillment of Corporate Governance requirements. - Identify the role and responsibilities of both the Chairman and the CEO with due observation of the segregation between and independence of both positions. - Propose the policies that ensure integration of Corporate Governance rules such as code of conduct, the insider trading policy, transactions with related parties, conflict of interests, disclosure & transparency, safeguarding shareholders' rights and whistle blowing.

Key Achievements in 2016	• Managed to conduct continued review of the Bank's Corporate Governance Manual and verify that the Bank is in compliance with the content of this manual. • Updated the Board of Directors' Bylaws. • Updated the BCGC's Bylaws. • Updated the Bank's Corporate Governance related policies such as conflict of interest, transactions with related parties and insider trading policy. • Updated disclosure & transparency policy in compliance the regulatory instructions. • Updated code of conduct policy. • Managed to review the Bank's Corporate Governance & Compliance reports and ensure that any related observations were addressed and resolved. • Managed to conduct quarterly review of the rules & systems pertaining to AML & CFT. • Succeeded in following up the Bank's compliance with FATCA requirements.
Board Risk Management Committee	
Composition	• Mr. Abdulrahman Abdullah Al Ali – Chairman, BRMC • Mr. Musaed Nuri Al Saleh • Ms. Mona Mousa Al Sarraf
Main Functions & Responsibilities	- Review the Bank's present and future risk appetite and strategy, develop effective systems and stringent & comprehensive procedures for risk management and provide advice to the Board of Directors in this respect. - Review the Bank's risk management policies before submission to the Board of Directors for approval. - Oversee the Executive Management's implementation of the risk management strategy and policy. - Review risk reports related to subsidiary & associated companies and take the necessary action in relation to such reports and review the policies associated with such risks prior to presenting the same to the Board of Directors. - Review credit risk metrics and related assessment process prior to presenting the same to the Board of Directors for approval. - Review regular risk reports submitted by Risk Management Division on the Bank's exposures and its adherence to the prescribed various risk limits, capital adequacy calculations, economic capital assessment and stress testing results.

Key Achievements in 2016	• Managed to review and update the Bank's risk management policy and risk appetite for the years from 2014 to 2016. • Managed to review and update market risk policy. • Succeeded in conducting regular review on the reports related to liquidity, interest rate and market risks. • Succeeded in conducting regular review on reputation risk reports. • Managed to conduct regular review on internal capital adequacy assessment process (ICAAP) and stress testing at the level of the group. • Managed to analyze portfolios pertaining to corporate credit, banking services and retail lending. • Managed to review the policies pertaining to operational risk management, business continuity plan management and information security & data classification.
Board Audit Committee	
Composition	• Mr. Bader Sulaiman Al Ahmad – Chairman, BAC • Dr. Arshid Abdulhadi Al Houri • Ms. Rasha Yousef Al Awadhi • Mr. Hazem Meshari Al Khaled
Main Functions & Responsibilities	- Review the scope, outcomes and the sufficiency of internal & external audit functions within the Bank. - Review accounting issues that may have a significant impact on the Bank's financial statements. - Review the Bank's internal control systems and ensure that human and other resources dedicated to handle jobs related to regulatory issues are adequate and sufficient. - Oversee and support independence of Internal Audit function. - Review the Bank's financial statements before presenting the same to the Board of Directors and ensure adequacy of provisions. - Verify the extent of the Bank's compliance with the laws, resolutions and regulatory instructions pertinent to the Bank's business and which are issued by the competent authorities in the country.
Key Achievements in 2016	• Regular review of quarterly financial statements. • Managed to review and follow up the External Auditor's ICR report for the year ended at 31/12/2015. • Managed to review and follow up the reports prepared by Internal Audit Department. • Following up implementation of the audit plan as approved by the BAC. • Monitoring the regular reports prepared on the extent of the Bank's compliance with regulatory instructions. • Managed to review and update the Bank's External Auditors Appointment Policy. • Managed to review IFRS 9 requirements.

Board Nomination & Remuneration Committee	
Composition	• Mr. Abdulrazzaq Abdulqader Al Kandari – Chairman, BNRC • Mr. Bader Sulaiman Al Ahmad • Dr. Arshid Abdulhadi Al Houri
Main Functions & Responsibilities	- Raise recommendations to the Board of Directors regarding the nomination for board membership pursuant to the Central Bank of Kuwait's rules and instructions issued in this regard. - Conduct an annual review on the required skills for board membership and prepare a description of the required credentials, competencies & knowledge that should be possessed by the Board Member. - Conduct an annual assessment of the Board of Directors' overall performance and performance of each individual Board Member. - Ensure that the Board Members are always cognizant of the up-to-date issues related to banking business through the proper means. - Review the Bank's remuneration policy before presentation to the Board of Directors and oversee its implementation and propose amendments to be made thereto if necessary taking into account the Bank's subsidiaries when preparing this policy. - Conduct an annual independent review of the remuneration policy or upon the Board of Directors' request and this review can be conducted through the Internal Audit Department or an external advisor. - Assess on regular and periodic basis the sufficiency and effectiveness of the remuneration policy in achieving its objectives. - Ensure that the Bank's Executive Management has put in place solid procedures as well as an effective supervisory mechanism to guarantee full compliance with the Central Bank of Kuwait's instructions and the Board of Directors' decisions on remunerations. - Recommend to the Board of Directors the level and components of the remunerations of the CEO and his deputies & assistants and any other job position as may be determined by the Board of Directors. - Ensure that remuneration policy and related practices at the Bank and its subsidiaries are consistent with Corporate Governance rules as per the Central Bank of Kuwait's instructions.
Key Achievements in 2016	• Assessed the performance of the Board of Directors and performance of each individual Board Member. • Managed to review and follow up performance assessment plan for the Bank's staff members. • Managed to review and follow up career development and succession plan. • Following up performance of Al-Tijari Academy. • Managed to conduct regular review of the Bank's remuneration policy

Board Loan Committee	
Composition	• Mr. Ali Mousa Al Mousa – Chairman, BLC • Sheikh / Ahmad Duaij Al Sabah • Mr. Abdulrazzaq Abdulqader Al Kandari • Mr. Musaed Nuri Al Saleh • Ms. Mona Mousa Al Sarraf
Main Functions & Responsibilities	- Review and amend the credit policy. - Review, amend and approve country credit limits and the prescribed counter parties' limits for banks - Review, amend and approve the foreign exchange limits (FX Limits). - Review, amend and approve to extend, renew and reschedule the credit facilities. - Give the other approvals pertaining to credit facilities as per the Bank's credit policy and the applicable legislations & relevant Central Bank of Kuwait's instructions.
Key Achievements in 2016	• Review and amendment of the credit policy. • Managed to review and approve the credit facilities within the limits prescribed by the Board of Directors. • Monitoring the position of the Bank's credit portfolio and related risks.

Sixth: Meetings of Board of Directors & its Sub-Committees and Frequency of Participation in such Meetings

Presented below is the number of meetings of the Board of Directors and other related Board Committees during the year 2016 along with an outline of the frequency of participation by the Board Members in such meetings.

Total Number of Meetings Held During 2016	Board of Directors	BCGC	BRMC	BAC	BNRC	BLC	Total Number of Meetings Attended by Board Members
	13	5	8	8	3	53	90
Board Members	Number of Meetings Attended by the Board Members						
Ali Al Mousa	12					50	62
Sheikh/ Ahmad Al Sabah	11	5				47	63
Abdulrazzaq Al Kandari	9				3	40	52
Abdulrahmn Al Ali	13	4	8				25
Bader Al Ahmad	13			7	2		22
Dr. Arshid Al Houri	13			7	3		23
Musaed Al Saleh	9		5			44	58
Hazem Al Khaled	8	2		5			15

Rasha Al Awadhi	13	4		8			25
Mona Al Sarraf	10		5			45	60

*The Board Members have been elected in the Ordinary General Assembly Meeting held on 4/4/2015 and no changes were made to the Board of Directors during the year 2016.

Seventh: Assessment of the Board of Directors' Performance

In implementation of the prudent Corporate Governance rules, the performance of the Board of Directors and all Board Members is assessed on an annual basis. This assessment is presented to the Board of Directors for discussion and for taking up the required recommendations in this regard with a main objective to enhance professionalism & credentials of the Board of Directors and the Board Members in all areas associated with the Board functions & responsibilities.

Eighth: Board of Directors' Confirmation on Adequacy of Internal Control Systems

Among the responsibilities assigned to the Board of Directors, the Board should ensure that exercising its functions is consistent with the relevant legislations & rules and regulatory instructions, particularly those issued by the Central Bank of Kuwait. The Board is also responsible for the Bank's financial soundness along with ensuring that the Bank's business is prudently managed within acceptable risk parameters without exposing the Bank to unexpected risks that may cause financial loss and other hazards. Further, the Board of Directors should confirm also that the Bank has in place proper internal control systems.

In view of the above, the Bank has in place an approved and appropriate organizational structure to implement the Bank's strategies & objectives and take over its functions in compliance with Corporate Governance rule along with identifying duties, responsibilities and authorities of all units incorporated within this organizational structure with due observation of internal controls and segregation of duties & responsibilities, dual control and clear job description for the incumbents in these units.

Within the process of verifying the adequacy and effectiveness of the Bank's internal control systems with a view to safeguard the Bank's assets and enhance its operations efficiency, the Board of Directors regularly monitors the policies, controls and internal control functions (inclusive of Internal Audit /Risk Management Division / Compliance & Corporate Governance Department) to improve & enhance their performance. Further, internal control systems are one of the recurring items listed in the Agenda of the Board of Directors' meetings to discuss any updates or enhancement required on applicable controls along with rectifying any remarks raised in respect of the same.

However, and through the reports submitted by the Board committees, the Board of Directors reviews and approves the rules, policies and manuals pertinent to Corporate Governance and internal control systems that commensurate the Bank's business & activities and all its branches and subsidiaries inside or outside Kuwait. In addition, and in compliance with the Central Bank of Kuwait's instructions on Corporate Governance rules & systems, the Board of Directors verifies the effectiveness of such rules & standards and enhances & updates the same based on the developments that may arise thereon. The abovementioned reports include any remarks raised by the regulatory authorities, External Auditors and Internal Audit.

In view of the above, the Board of Directors believes that the Bank has proper internal control systems.

Ninth: External Auditor's Report on Adequacy of Internal Control Systems

As per the Central Bank of Kuwait's instructions, an independent External Auditor should be engaged to assess the internal control systems at bank. As such, and during the year 2016, the Bank has engaged the audit firm (BDO), after obtaining the Central Bank of Kuwait's approval, to assess the Bank's internal control systems for the year 2015. The audit firm's report prepared in on 29/6/2016 stated that accounting records and other records and internal control systems of the Group have properly been prepared and maintained in compliance with the requirements of the general guideline manual issued by the Central Bank of Kuwait on 11/11/1996 and the Central Bank of Kuwait's circular dated 11/2/2014 and that the raised findings have no substantial impact on the Group's fair presentation of the financial statements. The report, further, emphasized that the actions taken by the Group to address the said findings including those raised in previous years are satisfactory. Here below is the said report.

BDO

Tel: +965 2242 6999
Fax: +965 2240 1666
www.bdointernational.com

Al Shaheed Tower, 6th Floor
Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait

Opinion letter

The Board of Directors
Commercial Bank of Kuwait S.A.K.
Mubarak Al Kabeer Street
Safat,13029
State of Kuwait.

29 June, 2016

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 4 February, 2016, we have examined the accounting and other records and internal control systems of Commercial Bank K.S.C.P ("the Bank") and the following subsidiary of the Bank for the year ended 31 December 2015:

- Al-Tijari Brokerage Company

We covered the following areas of the Bank:

- Corporate Governance;
- General Control Environment;
- Treasury and Investments;
- Retail Banking;
- Virtual Banking;
- Advertising and Public Relations;
- Corporate Credit;
- Operations;
- Human Resources;
- Legal Affairs;
- Compliance and Anti-Money Laundering;
- International Banking and Syndication,
- General Services;
- Risk Management;
- Clients' Complaints unit;
- Financial Control;
- Information Technology;
- Strategy and Planning;
- Construction and Property Management;
- Financial Securities Activities
- Fraud and Embezzlement; and
- Confidentiality of Customers' Information.

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) letter dated 17 January, 2016 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, instructions relating to corporate governance issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning anti money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities of the Group and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in any internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

With the exception of the matters set out in the accompanying report, and having regard to the nature and volumes of the Group's operations, during the year ended 31 December 2015, and the materiality and risk rating of our findings, in our opinion:

a) the accounting and other records and internal control systems of the Group were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 14 November 1996 and letter issued by CBK on 17 January 2016,

b) the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Group for the year ended 31 December 2015, and

c) the actions taken by the Group to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,

Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

Tenth: Corporate Values & Ethics

The Bank continues to apply sound practices of Corporate Governance being fundamental principles and significant pillar of its overall culture. During the year, the Bank put forth tremendous efforts to enhance compliance with the corporate values and raise awareness of all staff members of such values.

The Bank complied with Corporate Governance values which were enhanced through a set of policies and procedures applicable at the Bank, salient of which were the following:

Code of Conduct

The Code of Conduct is one of the main components of Corporate Governance rules at the Bank. The Board of Directors and Executive Management focus on the importance of complying with the Code of Conduct within the Bank's day-to-day business activities, among its employees, customers and stakeholders.

The Bank reviews the Code of Conduct on a regular basis to ensure its consistency with all developments pertaining to Corporate Governance and professional behavior. Furthermore, the Board of Directors and through audit functions & internal controls oversees and verifies that the Code of Conduct is implemented efficiently where any mismatches are being identified and necessary actions are being taken.

Conflict of Interests

The Bank endeavors to implement Conflict of Interests Policy as approved by the Board of Directors. Concurrently, and under supervision of the Board Corporate Governance Committee and the Board of Directors, the Bank regularly reviews this policy in consistency with nature of the Bank's business and developments seen in regulatory instructions. In addition, the Bank employs a set of procedures and forms & records regulating disclosure on Conflict of Interests and the mechanism of addressing the same.

Conflict of Interests Policy is also subject to regular & independent review by Internal Audit Department to verify the extent of compliance with the same.

Transactions with Related Parties

The Bank endeavors to conduct all its transactions with related parties on an arm's length basis in the same terms as applied by the Bank towards other non-related parties without any preferential terms by implementing policy covering Transactions with Related Parties as approved by the Board of Directors. Furthermore, and under the supervision of the Board Corporate Governance Committee and the Board of Directors, the Bank regularly reviews this policy in consistency with nature of the Bank's business and the progress seen in regulatory instructions. In addition, the Bank adopts a set of procedures and uses forms & records regulating disclosure of related parties transactions and the mechanism of addressing the same.

Confidentiality

The Board of Directors, Executive Management and employees endeavor to preserve and maintain confidentiality of information of the Bank, its customers and other stakeholders as per the provisions of the laws, rules and instructions issued by the Central Bank of Kuwait and other regulatory authorities.

The Bank consistently apply the controls which maintain and preserve the confidentiality of information as per the policies approved by the Board of Directors in this regard and the internal control systems.

Whistle Blowing

The Whistle Blowing Policy approved by the Board of Directors is meant to establish & encourage communication culture and enhance trust among the Bank's employees and enable them to communicate their concerns regarding any potential violations in relation to corporate values & ethics or any illegal acts that may adversely affect the Bank's interests. This policy allows employees to directly contact the Chairman regarding such concerns and it also provides protection to those employees.

Eleventh: Remuneration Policy

The policy was prepared by the Board Nomination and Remuneration Committee and was approved by the Board of Directors on 18/6/2013. The policy was reviewed & updated by the BNRC and was approved by the Board of Directors on 29/6/2016. In addition to the above, the Bank's Internal Audit conducts regular & independent review on this policy to assess the extent of the Bank's compliance with remuneration related practices.

Summary on Remuneration Policy

The objectives of Remuneration Policy are as follows:

1. Adopt and develop effective and practical Remuneration Policy consistent with the Bank's risk strategy.
2. Attract and retain highly qualified professionals needed for performing the banking business.
3. Link Remuneration Policy to the Bank›s performance and business risk on the short, medium and long term.

Major Features of the Remuneration Policy:

1. The Bank adopts remuneration policy that apply to all the employees of the Bank by adopting a system that will classify, appraise and describe all jobs that should be occupied by the employees who have the expertise and skills that commensurate with the said system.
2. The policy will take into account the legal and regulatory requirements in addition to the rules and laws enforceable in Kuwait as well as the level and range of salaries and remuneration in the banking and financial sector when determining the level of salaries and remuneration in the Bank.
3. Remunerations are divided into fixed remunerations which include salary, fixed package & pay and variable remunerations which are based on staff performance appraisal.
4. Based on the applicable Corporate Governance rules, variable remunerations encompass remunerations linked to Senior Management Team Members performance over a term of 3 years which is also associated with the risks involved in the duties assumed by the staff member.
5. Remuneration Policy includes an Item on "Claw back" in relation to the variable remunerations that can be clawed back in exceptional cases such as sluggish financial performance.
6. All staff should be subject to annual appraisal where variable remunerations will be constrained by this appraisal.
7. As per the Bank's Organizational Structure, Compliance & Corporate Governance Department presents its reports to the Board Corporate Governance Committee while Internal Audit Department and Risk Management Division present their reports to the Board Audit Committee and the Board Risk Management Committee respectively. However, and from the management perspective, the three Departments work with a direct reporting line to the Chairman of the Board who in his turn prepares the performance appraisal of heads of the said Departments. As such, the CEO will not have any role in the performance appraisal of the above mentioned heads. Thus, the promotions and remunerations that will be decided and determined by Senior Management at the Bank will count on such performance appraisal.

Twelfth: Disclosure of Remunerations for the Year 2016

Board of Directors

Remunerations totaling KD 530 thousand have been paid to the Chairman and the Board Members during the year 2016 in consideration for the tasks assigned to them and which include their participation in the Board Committees. The Board of Directors' remunerations are disclosed in the annual financial statements of the Bank.

Executive Management

Remunerations totaling KD 827,585 have been paid to five Top Executives who have received the highest remunerations during the year 2016. The above amount also includes the remuneration paid to Acting Head – Risk Management Division, Chief Financial Officer and Chief Internal Auditor.

Remunerations based on staff members' categories

Category	Number	Total Remunerations	Remarks
Jobs subject to the Central Bank of Kuwait's approval	7	KD 686,681	• Including the CEO and Top-Executives at the Executive Management Team.
Supervisory positions in Financial Control Department and Risk Management Division	10	KD 478,283	• Including supervisory positions in Financial Control Department and Risk Management Division.
Supervisory positions in risk taking areas.	37	KD 1,955,536	• Including supervisory positions with authorities in relation to financial issues in the Bank's business areas such as Retail Banking Division, Corporate Credit, Treasury & Investment, and International Banking & Syndication Division.

- Remunerations include basic salary and other allowances & incentives such as housing, transport, tuition fees, medical insurance, airline tickets, terminal gratuity and other remunerations as agreed on in the employment contract.
- The remunerations currently paid by the Bank to its staff members include fixed remunerations and variable remunerations, if any.
- Remunerations are paid to the employees by crediting the concerned staff account of the remuneration amount.

Thirteenth: The Extent of the Bank's Compliance with Corporate Governance Rules & Related Manual

- The Bank has complied with the Central Bank of Kuwait's instructions on Corporate Governance rules and the Corporate Governance Manual applicable with the Bank by preparing and completing all byelaws and policies pertaining to Corporate Governance regulations and getting the same approved within the deadline specified by the Central Bank of Kuwait in the related instructions. The Bank, further, updates these byelaws & policies on a regular basis.
- The Bank has taken the required actions to ensure the proper implementation of Corporate Governance rules and has composed the Board Committees that shall follow up and monitor the implementation of Corporate Governance requirements.

- The Code of Conduct is circulated to the Board Members and all staff members at the Bank along with obtaining their signatures for compliance with the content of Code of Conduct.
- Internal Audit Department, as an independent function from the Executive Management, shall audit and review the extent to which Corporate Governance rules are properly implemented and submit its report in this regard to the Board Audit Committee which, in its turn, presents the same to the Board of Directors.
- An independent External Auditor is engaged to assess the internal control systems including the extent of the Bank's compliance with Corporate Governance rules where the External Auditor's ICR report is sent to the Central Bank of Kuwait. However, and in relation to Corporate Governance, The External Auditor's 2015 report included only one minor remark on the procedural aspects which was promptly addressed and resolved by the Bank.

Fourteenth: Executive Management

Elham Yousry Mahfouz
The CEO

Ms. Elham is a banker holding a Bachelor with honor degree in Business Administration 1984 / American University in Cairo and she is a Member in the legal bankers Institute in London. Ms. Elham joined Commercial Bank of Kuwait in the year 2000 as Manager – International Banking and progressively held top-executive positions holding the position of GM – New York Branch, Acting GM – International Banking, GM – International Banking in December 2010 and she was promoted as Deputy CEO in April 2012 and was appointed as the CEO of the Bank on 20/11/2014. The CEO attends the meetings of the Board of Directors, BCGC and BLC and also presides over all management committees in which the CEO is a Member.

Before joining Commercial Bank of Kuwait, Ms. Elham worked with a number of Kuwaiti financial institutions possessing a long experience and a proven track record in banking financial areas for approximately 30 years.

Sahar Abdulaziz Al-Rumaih
GM- Corporate Credit Division
Acting GM - Retail Banking Division

Ms. Sahar is a banker holding a Bachelor degree in Economy 1988 / Kuwait University and possesses more than 28 year experience in corporate credit. Ms. Sahar joined Commercial Bank of Kuwait in the year 2000 after working about 12 years in other Kuwaiti financial institutions. Ms. Sahar manages, in cooperation with her taskforce, the Bank's credit portfolio. She participates in the BLC meetings and is also a Member in the Credit & Investment Committee, ALCO, Provisioning Committee and Management Committee besides being a Member in Purchasing & Tender Committee as she holds the position of Acting GM – Retail Banking Division. Further, she was assigned, effective from 9/12/2015, to take over responsibilities as Acting General Manager - Retail Banking Division in addition to her responsibilities as General Manager - Corporate Credit Division.

Adli Abdulla Ghazal
GM - Treasury & Investment

Mr. Adli is a banker holding a Bachelor of Commerce 1971 / Beirut Arab University - Lebanon. Mr. Adli joined Commercial Bank of Kuwait in the year 2001 as Senior Manager - Treasury and he has banking experience of more than 40 years in treasury business and financing & liquidity in Kuwaiti banks. Mr. Adli progressively held many positions and he now holds the position of GM – Treasury & Investment and he is also a Member in Credit & Investment Committee, ALCO, Management Committee and Provisioning Committee.

Yaqoub H. Al-Ebrahim

GM - Compliance & Corporate Governance

Mr. Yaqoub is of Kuwaiti nationality and held a Bachelor degree with honor degree in Accounting 1980 / Long Island University, New York - USA. Mr. Yaqoub has professional experience of about 34 years mostly acquired during his career in the Central Bank of Kuwait where he held the position of Director, On-Site Supervision Department and he was a Member in the National Committee for AML & CFT. Mr. Yaqoub was also a Board Member of financial and non-financial companies, besides being a Member in a number of local and regional committees. He joined Commercial Bank of Kuwait in December 2011 as General Manager – Compliance & Corporate Governance and held the position of Secretary to the Board and all Board Committees during the period from December 2014 to November 2015. Mr. Yaqoub is also the Bank's official spokesman and he is now the Chairperson of Purchasing & Tender Committee besides being Secretary to the Board Corporate Governance Committee.

Masud Ul-Hassan Khalid

Chief Financial Officer - Financial Planning & Control

Mr. Masud is an accountant holding a Bachelor of Commerce 1981 / University of Punjab, Lahore, Pakistan and also obtained a diploma in International Financial Reporting Standards and he is a Fellow Member in the Institute of Costs & Management Accountants in Pakistan. Mr. Masud possesses an experience of more than 22 years in banking industry. He joined the Bank in 1992 and enjoys sound analytical skills, financial & management reporting potentials and preparing of budgets and the reports required by regulators and the Central Bank of Kuwait. He is also a Member in ALCO, Purchasing & Tender Committee, Credit & Investment Committee, IT & Operational Risks Committee and Management Committee.

Mohamed Hashem Mohamed

Legal Advisor to the Chairman and General Manager - Legal Department

Mr. Mohamed held a Master degree in International Trade & Investment Laws 1997 / Cairo University and he is a lawyer enrolled in the roll of lawyers admitted to plead before the Court of Cassation, Supreme Administrative Court and Supreme Constitutional Court. Mr. Mohamed's experience exceeds 21 years in the legal field at Conventional and Islamic banks. He joined the Bank in March 2016 as a Legal Advisor to the Chairman and General Manager - Legal Department and he participates in the meetings of the Board Corporate Governance Committee and Board Loans Committee.

Before joining the Bank, Mr. Mohamed was a legal advisor in a number of Egyptian and Kuwaiti banks, namely Commercial International Bank (Egypt), National Bank of Kuwait and he was the Head of Legal Division at Al Ahli United Bank - Kuwait.

Paul Daoud

General Manager - Operations

Mr. Paul is a banker holding a Bachelor of Business Administration 2006 / Kendi Western - USA. Mr. Paul has 35 years experience at Commercial Bank of Kuwait where he joined the Bank in 1981. He worked in Retail Banking area where he progressively held a number of posts in Retail Banking Division and he held the position of General Manager, RBD. Effective from 9/12/2015, Mr. Paul was assigned to take over the responsibilities of Acting GM – Operation, then he was appointed as permanent & confirmed GM – Operations commencing from 28/6/2016. He is also a Member in IT & Operational Risks Committee and Management Committee.

Ahmed Mohamed Farahat
Chief Internal Auditor

Mr. Ahmad held a Bachelor degree in Accounting and Auditing 1994/ Faculty of Commerce - Cairo University and also obtained a number of specialized professional certificates in diverse areas such as Certified Internal Control Auditor, Certified Risk Analyst and Certified Fraud Examiner.

Mr. Ahmad held diverse positions in both audit and risk areas at different banks and companies in Kuwait, United Arab Emirates and Egypt. Mr. Ahmad's experience extends to about 21 years in internal audit, Corporate Governance and risk management and also has experience in fraud investigation at banks and financial institutions.

Mr. Ahmad joined the Bank in May 2015 as Deputy Chief Internal Auditor and was appointed as Chief Internal Auditor in 25/10/2015, and he also participates in the regular meetings of the Bank's Board Audit Committee.

Mona Hussain Al-Abdulrazzaq
GM – Human Resources Department

Ms. Mona obtained a Bachelor of Computer Science 1986 / Kuwait University and she has professional experience which extends to 23 years in human resources, media and business development areas. Ms. Mona joined the Bank in November 2015 as GM – Human Resources Division and she participates in the meetings of Board Nomination & Remuneration Committee besides being a Member in the Management Committee. Ms. Mona held a number of positions in public & private sectors in Kuwait & United Arab Emirates such as her position as Media Advisor for H.E. the Minister of Commerce & Industry in Kuwait, HR Director - Tony Blair Project with Prime Minister's Office / Government of Kuwait and Executive Manager - Recruitment & Manpower/ Al Ahli Bank of Kuwait. Further, Ms. Mona worked at Kuwait Airways Corporation for a long time and also worked in other institutions in Kuwait.

Yasser Mahmoud Behbehani
Acting GM - ITD

Mr. Yasser held a Bachelor of Computer Science 1991 / Miami University - USA and his professional experience extends to 25 years. He joined the Bank in 2008 as Executive Manager, E-Channels / Retail Banking Division and was appointed as Acting General Manager - Information Technology Department in January 2016. Mr. Yasser started his career progression with Gulf Bank - Kuwait during the period from 1992 to 1999 where he progressively held a number of positions such as System Programmer then he was promoted to the position of Projects Manager. He moved to work in Kuwaiti National Cinema Company during the period from 1999 to 2008 and occupied the position of General Manager – Information Technology and Operations.

During his tenure with Commercial Bank of Kuwait, Mr. Yasser participated in implementation of a number of e-channels banking operations such as Mobile Banking, SMS and E-Banking services. He is also a Member in IT & Operational Risks Committee, Management Committee and Purchasing & Tender Committee.

Mr. Yasser's various voluntary initiatives covered a number of Information Technology related issues where he produced B2B project titled "Kuwait Contact" and also contributed in establishing BBS project in the early 1990s.

Syama Sundar Parvatraj
Acting Head of Risk Management Division
Head of Credit & Investment Review Unit

Mr. Syama obtained a Bachelor of Science 1979 / SV University – India and he is a Certified Associate of Indian Institute of Bankers and obtained a number of specialized professional courses in risk and credit management areas. Mr. Syama has long experience of 33 years in banking sector, particularly in credit risk area. He started his career in Bank of India as an officer in branches and was promoted over a term of 11 years to become Deputy Manager – Credit at Hyderbad Branch and also worked at IndusInd Bank / India as Assistant Vice President & Credit Analyst. Mr. Syama joined the Bank since 2007 as Head – Credit & Investment Review and he is now

Acting Head of Risk Management Division. Mr. Syama also participates, on a permanent basis, in the Board meetings and both the Board Risk Management Committee and the Board Loans Committee meetings besides being a Member in Provisioning Committee, ALCO and Purchasing & Tender Committee.

Kunal Anirudh Singh

Acting Head of International Banking and Syndication Division

Mr. Kunal obtained MBA /2003 from ICFAI Business School (India) and Chartered Financial Analyst (CFA) Certification/2013 from CFA Institute (US). In addition, he has obtained several certifications in the field of Derivatives, Valuations, and Mutual Funds. He has over 14 years of experience in the fields of international banking, debt syndications, project financing, investment banking, mergers & acquisition, debt restructuring, debt/equity capital markets etc. He also worked at a number of financial institutions such as KAMCO Investment Company, Goldman Sachs and Albazie RSM International.

He joined Commercial Bank of Kuwait in 2015 as Senior Manager – International Banking Division. Effective July 2016, he was assigned to take over responsibilities as Acting Head of International Banking and Syndication Division.

Fifteenth: Corporate Social Responsibility

Commercial Bank of Kuwait has a significant footprint in corporate social responsibility. Over the past decades, the Bank placed high importance on corporate social responsibility activities and programs which became a key factor and mainstay of sustainable development in the society.

Within its endeavors to optimally participate in corporate social responsibility activities and programs, the Bank provides support and sponsorship to all society segments particularly the physically challenged people and put forth all its efforts to support the activities pertaining to awareness campaigns and the visits arranged for the patients hospitalized in hospitals and the care homes' residents.

During the year 2016, the Bank stepped up its efforts towards society servicing by strengthening its cooperation with the civil society institutions, namely the six governorates of Kuwait where the Bank supported the activities and events patronized by Kuwait governorates. Such cooperation yielded good results and was positively reflected in the great success achieved by the diverse social activities supported by the Bank.

On the other hand, the activities of "Hawwen Alihom" Campaign particularly designated for the road cleaners and construction workers continued to see more support by the Bank. The campaign continued to offer support and assistance to this segment due to the important role of the road cleaners in preserving the environment and keeping it clean. In addition, the Bank continued its efforts for reviving the old Kuwaiti heritage through its annual calendar which contains pieces of art depicting the old Kuwait lifestyle and also through "Ya Zain Turathna" campaign which aims to revive the old Kuwaiti heritage and educate the present and future generations of the noble meanings & good deeds of the ancestors & forefathers.

The Bank's efforts in Corporate Social Responsibility were highly recognized by receiving a certificate of recognition for the 2016 pioneering CSR project in GCC Countries. This honoring came at the sideline of the 33rd session of the Council of Ministers of Labor & Council of Social Affairs of Gulf Cooperation Council (GCC) for Arab States which was recently held in Riyadh.

The Bank will continue its efforts to support corporate social responsibility activities, programs and initiatives to reflect and demonstrate its significant role towards society service as a prestigious banking institution which endeavors to highlight and accentuate corporate social responsibility.

Sixteenth: Management Discussion and Analysis

Based on the Central Bank of Kuwait's instructions dated 20/6/2012 on Corporate Governance rules and systems at Kuwaiti banks, the Bank's Management, with its contribution to all the Bank's current operations and business activities and its outlook for the Bank's prospective plans, confirms that the notes presented hereunder are complete, Board-approved, and based on the published financial statements and Senior Management's vision.

In this context, the Management believes that Commercial Bank of Kuwait remains a financially stable institution, with a sound balance sheet, strong income generating businesses, sufficient capital adequacy and high liquidity. A summary of the bank's financial position is presented below. Full financial information is available in the bank's financial statements.

Balance sheet

Total assets at KD 4.1 billion are higher by 2.2% compared to last year. Loans and advances represent 54.6% of total assets while investment securities and Central Bank bills & bonds are 9.5% and 8.0% respectively. The loan portfolio at KD 2.3 billion is mainly comprised of Commercial loans with 30.0% concentrated in the real estate & construction sector and 25.6% concentrated in trade and commerce sector. Retail loans are 19.6% of the total loan portfolio mainly comprised of personal loans. The investment securities consist of debt securities and equity portfolio approximately in equal proportion. It is worth mentioning that the NPL to total loans ratio at 0.5% (the lowest in the banking sector) is lower than 0.9% compared to December 2015 while provision coverage ratio reached 1175.8%, an extremely comfortable and higher level.

The total liabilities of KD 3.5 billion include customer deposits of KD 2.2 billion. The effort to diversify the sources of funds continued during the year resultantly the concentration in Government deposits decreased from 38.8% to 36.3%. Total shareholders' equity increased from KD 575.7 million to KD 603.1 million.

Income

The operating income grew by 3.0% to KD 140.3 million compared with KD 136.2 million for 2015, excluding KD 5.7 million exceptional gains from sale of assets pending sale during last year, the operating income grew by 7.5%. Components of operating income are comprised of interest income KD 84.8 million, fees and commission KD 37.4 million, investment, foreign exchange and other income KD 18.2 million. Loans amounting to KD 84.0 million were written off during the year while recovery against previously written off loans amounted to KD 33.7 million. The net profits increased from KD 46.2 million (EPS 30.9 fils) to KD 50.4 million (EPS 33.8 fils) .The bulk of the Bank's earnings come from Corporate and Retail banking activities. Expense management continues to be one of the bank's strengths; the cost to income ratio at 27.9% is much lower than industry average.

Capital adequacy & other Basel III ratios

The Bank's capital adequacy at 17.9% is at comfortably above the minimum requirement of 13.5%. The LCR 142%, NSFR 108.7% and leverage ratio 11.2% are well above the Central Bank of Kuwait's stipulated requirements.

Review of historical performance

The Bank's operating profit before provisions has been fairly stable over the last five years despite the prevailing geo political crisis in the region and low oil price regime. The proactive loan loss provisioning and building of voluntary loan loss reserve has seen the fluctuations in banks' net profit but has stabilised during last three years. Net profitability started improving during 2013 and the trend continuing during 2016 by declaring the highest net profit during last 5 years. It is to be noted that most of the Bank's operations are locally concentrated to make up 80.5% of total operations of the Bank. The growth in assets has been moderate during this period with business divisions i.e. Corporate Credit Division (CCD), Retail Banking Division (RBD) and Treasury & Investment Division (TID) reported moderate growth while International Banking & Syndication Division (IBD) in diversification effort by geography resumed lending during 2013 and continued growth in subsequent years.

Review of the operating environment

The government continued its focus on infrastructure development projects providing a boost to construction activities and private sector lending activities. The government awarded projects worth USD 28.3 billion in 2015 and USD 18 billion in 2016. Consequently, credit growth remained healthy at 3% y-o-y as at Dec 2016, driven by sustained domestic consumption, capital expenditure and favourable liquidity conditions during the year.

Nonetheless, the local banking industry experienced a tightening of margins with the US Federal Reserve hiking the rate in December 2015. The local commercial banking industry in 2016 saw a challenging operating environment with the returns not increasing commensurately to the increase in cost of funds.

The year 2016 saw slight improvement in global oil prices which were on a declining trend since its peak in June 2014 and declining to a low of USD 28 per barrel in January 2016. It is expected that Kuwait is fiscally robust to support its economy through a period of low oil prices given its low fiscal breakeven price i.e. the second lowest in the world after that of Norway and lowest in the region; as well as its ample foreign exchange and robust sovereign wealth reserves (one of the largest in the world) which will provide support to tide the country over in the face of sustained decline in oil revenue.

On the international front, the year 2016 continued to witness divergent policies in the US and Eurozone. While the US growth is on a recovery path and the US Fed increased interest rates in December 2015 after tapering down its Quantitative Easing (QE) programme, the European Union continues to witness negative interest rates amid extension of quantitative easing up to December 2017 by the European Central Bank.

From a growth perspective, China and India remained the drivers of global growth although the Chinese economy is continuing to show weaknesses. The Chinese economy which grew at 6.9% in 2015 is expected to further slow down at 6.7% in 2016 and 6.3% in 2017. The Chinese Government is trying to move away from investment and export driven growth to consumption and domestic demand driven growth model. However, the shift is likely to take some time and till then the slowdown in growth is expected to persist. On 1 Oct 2016, International Monetary Fund (IMF) officially included Renminbi to the basket of currencies that make up the Special Drawing Right (SDR). However, the international use of the Renminbi for cross border trade and financial transactions has been slow due to slowdown of China's economic slowdown and increase in financial risk. During the second quarter of 2016, Renminbi accounted for 4.12% of global FX trading. In India, the new government has taken a series of measures on fiscal policy to improve governance and the business climate which is reflected in significant improvement in India's ranking in the global governance ranking during the last two years. Further, India continues to be one of the fastest growing countries in terms of GDP.

Future Outlook – Risks and Challenges

Systemic risks

Global and regional uncertainties

The political and economic outlook continues to be unstable in general and more specifically in Europe and the MENA region. The rising US interest rates, change of guard in the US and the volatility of oil prices are major concerns for the global economy in general and Middle East economies in particular. Oil prices however appear to have bottomed out and might move higher during the year. The rising US interest rates is posing a threat to emerging markets and the global economies in general which could translate into lower valuations in the capital markets, which could lead to lower collateral valuations in the Banking books. The improvement in oil prices on the backdrop of the OPEC production cut announcement in Nov 2016 has given a sigh of relief for Middle East economies. However the likelihood of sustenance at higher levels is not concrete and further drop in oil prices, will impact banks in terms of both limiting the opportunities for growth in business and adversely impacting asset valuations (including increased volatilities). Considering that business levels of local banks are substantially aligned, both directly and indirectly, to the oil sector, declining oil prices can impact the asset quality of some of the loan assets by way of reduced revenue levels and liquidity squeeze and thus strains could be felt and defaults can happen.

This necessitates that banks implement robust risk monitoring and mitigation measures to safeguard their portfolio and profitability. In view of this, the Bank while continuing its approach of cautious growth in relatively safer assets, would be proactive in monitoring developments in the existing loan book and initiate measures as appropriate.

The Bank has a set of strategy parameters broadly comprising macro-economic parameters, internal variables, solvency, credit risk, liquidity risk, operational risk and interest rate risk in place and has been constantly monitoring the same inorder to identify the areas of improvement.

The Bank believes that the performance and growth of the overall Corporate Credit portfolio is linked to the GDP growth of Kuwait which inturn is dependent to a major extent on oil prices as Oil GDP forms a major component of the overall GDP. The improvement in Oil Prices on the backdrop of production cut announcement of OPEC in Nov 2016 is expected to sustain and consequently 2017 is expected to be relatively better for the regional economy, both on the GDP side and also the capital markets side. This is expected to translate into business growth for not only our Bank but for all Banks as well. However the major concern is the current slack in the Real Estate Industry with sales as on Nov 2016 dropping 26% y-o-y mainly on account of residential and investment sectors. The translation of GDP growth is expected to spill over real estate sectors too in 2017 which could be a boost for the Banking Industry as a whole.

Accordingly the Bank's strategy going forward is to cautiously and selectively look for opportunities in growing the Credit portfolio and also concentrate on recoveries of off-loaded accounts.

Local disruptive factors

Lower oil prices and its spillover impact on the capital markets poses a challenge to the balance sheet of the bank. The risk of translation of lower oil revenues into reduction in government spending will be a major domestic concern. Improvement in the oil price levels post announcement of OPEC production cut in Nov 2016 has led to the improvement in the capital markets as well. However falls in the oil prices will lead to a fall in the stock market, similar to what was witnessed during depressed oil price levels. This kind of a scenario could weigh down on the banking industry's balance sheet and earnings.

Asset and liability concentrations

The Bank has consciously reduced the share of real estate and securities in its portfolio and increased the share of Contracting, Manufacturing and Trade. Concentration on the liabilities side mainly due to high proportion of deposits from government and quasi government entities is a logical evolution of high liquidity in these entities. However, the Bank monitors and limits deposits from significant depositors. The bank has also put in place internal limits for deposits from the government sector. The risk strategy for 2017-19 has been finalised taking into account the present operating environment as well as the challenges faced and is ready for implementation in 2017.

Regulatory challenges

Regulations on corporate governance, Basel III, FATCA, AML & CFT, IFRS9 etc. will continue to pose challenges – some in terms of the banks' ability to meet the new standards and for others in terms of the sheer effort required in implementing these standards.

Idiosyncratic risks

Asset quality

The Bank has identified and recognised impairment in its credit and investment portfolios on a proactive basis. While this has been a challenge since the financial crises of 2007/2008 the Bank expects NPL formation to be at a slower pace going forward.

Operational risks

The Bank recognises the operational risk weaknesses issues which are reflected in the audit observations. Over the past two years, the Bank has taken several measures including the formation of a focused Operational Risk Committee to oversee the resolution of operational risks identified through the reported incidents or identified during the Risk and Control Self Assessments.

Significant progress has been achieved since and as a preventive measure, Risk Control Self Assessments were conducted for all high and medium risk areas during 2016 which has resulted in identifying operational weaknesses and strengthening the operational controls.

The Bank has also put in place a KRI frame work and would be collecting and monitoring the KRIs from different business/non-business areas.

FINANCIAL REVIEW

2016 Statement of Income

The net profit of KD 50.4 million attributable to shareholders of the Bank was 9.2% higher than KD 46.2 million for 2015. . Earnings per share were 33.8 fils compared to 30.9 fils for the last year.

Net interest income of KD 84.8 million was higher by KD 1.5 million compared to KD 83.3 million for 2015. The average yield on interest earning assets reached to 3.20% in 2016 from 2.82% in 2015. The average cost on interest bearing liabilities also increased from 0.73% to 1.05% during 2016. The Bank's net spread was 2.15% and the net interest margin was 2.26%. Improvement in net interest income, spread and net interest margin is result of better liquidity management and asset quality.

Net Gains from dealing in foreign currencies witnessed substantial growth during 2016, the gains reaching at KD 6.4 million compared to KD 4.6 million for last year, an increase of 39.2%.
Fees and commissions increased by KD 3.2 million (or 9.31%) to KD 37.4 million. Dividend income of KD 6.0 million was higher by KD 1.3 million compared to 2015.

Staff expenses of KD 21.3 million were higher by 11.0% compared to the level of 2015. General and administration expenses for 2016 were higher by KD 1.9 million (12.3% of 2015).

The charge for Impairment and other provisions for credit facilities and investments was KD 48.6 million for 2016, a decrease of KD 2.4 million compared to the KD 51.0 million of 2015. The impairment and provision charge was net of recoveries KD 33.7 million against previously written off loans. The provision reserve at year end 2016 was KD 141.2 million.

The Bank continues to enforce a strict credit policy and complies fully with the Central Bank of Kuwait provisioning requirements. The provision coverage ratio at year end 2016 including general provisions was 1175.8% of non-performing loans. Non-performing loans of KD 12.0 million were 0.50% of total loans.

2016 Balance Sheet

Total assets at KD 4,125.3 million increased by KD 87.9 million (or 2.2%) compared to last year. The Loans and advances net of provisions decreased by KD 47.0 million, the bank is consistently following up its policy of improving the quality of loans rather than quantity. The customer deposits decreased by KD 324.5 million while the deposit from financial institutions increased by KD 175.7 million.

The capital adequacy ratio under Basel III regulations 17.94%, leverage ratio 11.2%, liquidity coverage ratio of 142.0 % and net stable funding ratio 108.6% comfortably exceeds the minimum requirement set by the Central Bank of Kuwait.

Dividends and Proposed Appropriations

Subject to approval by the Shareholders at the Annual General Meeting, the Board of Directors has recommended that the Net profit for the year attributable to shareholders of the Bank of KD 50.4 million will be distributed as follow:

1. Cash dividend of 15 fils per share (2015: 13 fils) KD 22.3 million
2. Bonus share of 10 shares for every hundred shares (2015: 6) KD 15.0 million
3. KD 13.1 million transfer to retained earnings.

FINANCIAL INFORMATION

31 December 2016

INDEPENDENT AUDITORS´ REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF KUWAIT K.P.S.C.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commercial Bank of Kuwait K.P.S.C. (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

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 Auditor's responsibilities for the Audit of the Consolidated Financial Statements' section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have identified the following key audit matters:

a) Impairment of loans and advances

Loans and advances are accounted for at amortised cost less any impairment charges. Impairment of loans and advances is a subjective area due to the level of judgment applied by management in determining provisions and the management is required to identify those loans and advances that are deteriorating due to loss events, make an objective assessment for evidence of impairment, the value of collateral and the assessment of the recoverable amount.

Due to significance of loans and advances (representing 54.55% of total assets) and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies and the management's assessment of the credit risk and their responses to such risks are given in Note 21(b) to the consolidated financial statements.

Our audit procedures included the assessment of controls over the granting, recording, monitoring and impairment provisioning processes of loans and advances to confirm the operating effectiveness of the key controls in place, to identify the impaired loans and advances and estimate the required provisions against them. We tested a sample of loan facilities and assessed critically the criteria for determining whether an impairment event had occurred, by focusing on those with the most significant potential for impairment due to increased uncertainty for recovery in the current market circumstances and specifically challenged management's assessment of the recoverable amount.

For selected non-performing loans, we assessed management's forecast of recoverable cash flows, valuation of collateral, estimates of recovery on default and other sources of repayment. Additionally, we selected samples of performing loans and assessed whether the borrowers exhibit any possible default risk that may affect the repayment abilities.

Disclosures relating to the impairment provision policy is presented in Note 2(d)(x), and risk management policies are disclosed in Note 21(b) to the consolidated financial statements.

b) Valuation of derivative financial instruments

The Group has significant derivative financial instruments, the valuation of which is determined through the application of valuation techniques, that often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of derivative financial instruments and the related estimation and uncertainty, this is considered a key audit matter. The Group's accounting policies on derivative financial instruments are disclosed in Note 2(d)(iii) to the consolidated financial statements.

Our audit procedures included assessment and testing of controls over the identification, measurement and management of derivative financial instruments to confirm the operating effectiveness of the key controls in place.

In addition to the testing of key controls, we evaluated and challenged the methodologies, inputs and assumptions used by the Group in determining fair values, with the help of our own valuation specialist and by reference to externally available market data to assess whether appropriate inputs are used in the valuation. We also compared, for a sample of instruments, valuations derived from our internal valuation model with the fair values determined by the Group. Disclosures relating to derivative financial instruments is presented in Note 21(b)(i)(F) to the consolidated financial statements.

Other information included in the Annual Report of the Group for the year ended 31 December 2016

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon.

We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate to those charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to those charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, its executive regulations; and by the Bank›s Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, and its executive regulations; or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

Talal Y. Al-Muzaini
License No. 209 A
Deloitte & Touche
Al-Wazzan & Co.

Nayef M. Al-Bazie
License No. 91 A
RSM Albazie & Co.

10 January 2017
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

ASSETS	Note	2016 KD 000's	2015 KD 000's
Cash and short term funds	3	**556,929**	682,469
Treasury and Central Bank bonds	4	**329,570**	332,575
Due from banks and other financial institutions	5	**472,078**	265,681
Loans and advances	6	**2,250,468**	2,297,466
Investment securities	7	**393,334**	338,888
Premises and equipment		**29,439**	30,234
Intangible assets	9	**3,506**	9,809
Other assets	10	**89,965**	80,229
TOTAL ASSETS		**4,125,289**	4,037,351
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**365,972**	166,904
Due to other financial institutions		**802,885**	627,232
Customer deposits		**2,221,632**	2,546,163
Other borrowed funds		**30,630**	-
Other liabilities	11	**100,323**	120,327
TOTAL LIABILITIES		**3,521,442**	3,460,626
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital		**149,666**	141,194
Proposed bonus shares		**14,967**	8,472
Treasury shares		**(3,740)**	(2,822)
Reserves		**254,666**	258,497
Retained earnings		**165,190**	152,077
		580,749	557,418
Proposed dividend		**22,330**	18,282
		603,079	575,700
Non-controlling interests		**768**	1,025
TOTAL EQUITY	12	**603,847**	576,725
TOTAL LIABILITIES AND EQUITY		**4,125,289**	4,037,351

Ali Mousa M. Al Mousa
Chairman

Elham Y. Mahfouz

Elham Yousry Mahfouz
Chief Executive Officer

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2016

	Note	2016 KD 000's	2015 KD 000's
Interest income	13	**120,103**	108,443
Interest expense		**(35,348)**	(25,138)
NET INTEREST INCOME		**84,755**	83,305
Fees and commissions		**37,382**	34,198
Net gain from dealing in foreign currencies		**6,405**	4,599
Net gain from investment securities	14	**1,263**	2,427
Dividend income		**5,954**	4,708
Gain on disposal of assets pending sale		**231**	5,714
Other operating income		**4,354**	1,273
OPERATING INCOME		**140,344**	136,224
Staff expenses		**(21,306)**	(19,187)
General and administration expenses		**(17,685)**	(15,743)
Depreciation and amortisation		**(119)**	(2,076)
OPERATING EXPENSES		**(39,110)**	(37,006)
OPERATING PROFIT BEFORE PROVISIONS		**101,234**	99,218
Impairment and other provisions	15	**(48,627)**	(51,004)
PROFIT BEFORE TAXATION		**52,607**	48,214
Taxation	16	**(2,205)**	(2,064)
NET PROFIT FOR THE YEAR		**50,402**	46,150
Attributable to:			
Shareholders of the Bank		**50,401**	46,185
Non-controlling interests		**1**	(35)
		50,402	46,150
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	17	**33.8**	30.9

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 KD 000's	2015 KD 000's
Net profit for the year	**50,402**	46,150
OTHER COMPREHENSIVE INCOME		
Items that will be reclassified subsequently to consolidated statement of income:		
Changes in fair value of investment securities	**(2,578)**	5,748
Net loss on disposal / impairment of investment securities	**(715)**	(1,839)
Items that will not be reclassified subsequently to consolidated statement of income:		
Property revaluation (loss) gain	**(796)**	1,131
	(4,089)	5,040
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**46,313**	51,190
Attributable to:		
Shareholders of the Bank	**46,313**	51,229
Non-controlling interests	**-**	(39)
	46,313	51,190

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	KD 000's														
	Attributable to shareholders of the Bank														
				Reserves											
	Share capital	Proposed bonus shares	Treasury shares	Share premium	Statutory reserve	General reserve	Treasury shares reserve	Property revaluation reserve	Investment valuation reserve	Total reserves	Retained earnings	Proposed dividend	Total	Non-controlling interests	Total
Balance as at 1 January 2015	141,194	-	-	66,791	70,597	17,927	45,380	24,947	27,811	253,453	132,646	25,415	552,708	1,064	553,772
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	1,131	3,913	5,044	46,185	-	51,229	(39)	51,190
Transfer to statutory reserve	-	-	-	-	45,380	-	(45,380)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	(2,822)	-	-	-	-	-	-	-	-	-	(2,822)	-	(2,822)
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(25,415)	(25,415)	-	(25,415)
Proposed dividend (note 12)	-	-	-	-	-	-	-	-	-	-	(18,282)	18,282	-	-	-
Proposed bonus shares (note 12)	-	8,472	-	-	-	-	-	-	-	-	(8,472)	-	-	-	-
Balance as at 31 December 2015	**141,194**	**8,472**	**(2,822)**	**66,791**	**115,977**	**17,927**	**-**	**26,078**	**31,724**	**258,497**	**152,077**	**18,282**	**575,700**	**1,025**	**576,725**
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(796)**	**(3,292)**	**(4,088)**	**50,401**	**-**	**46,313**	**-**	**46,313**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issue of bonus shares	**8,472**	**(8,472)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Purchase of treasury shares	**-**	**-**	**(918)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(918)**	**-**	**(918)**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,273)**	**(18,273)**	**-**	**(18,273)**
Dividend on treasury share purchased	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9**	**(9)**	**-**	**-**	**-**
Proposed dividend (note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(22,330)**	**22,330**	**-**	**-**	**-**
Proposed bonus shares (note 12)	**-**	**14,967**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,967)**	**-**	**-**	**-**	**-**
Ownership changes in subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**257**	**257**	**-**	**-**	**257**	**(257)**	**-**
Balance as at 31 December 2016	**149,666**	**14,967**	**(3,740)**	**66,791**	**115,977**	**17,927**	**-**	**25,282**	**28,689**	**254,666**	**165,190**	**22,330**	**603,079**	**768**	**603,847**

Investment valuation reserve includes a loss of KD 5,498 thousand (31 December 2015: loss of KD 5,452 thousand) arising from foreign currency translation of the Bank's investment in its associate.

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 KD 000's	2015 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		**52,607**	48,214
Adjustments for:			
Impairment and other provisions	15	**48,627**	51,004
Income from investment securities		**(7,217)**	(7,135)
Foreign exchange gain on investment securities		**(1,024)**	(2,875)
Depreciation and amortisation		**119**	2,076
Profit before changes in operating assets and liabilities		**93,112**	91,284
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		**3,005**	31,308
Due from banks and other financial institutions		**(206,397)**	436,064
Loans and advances		**(19,664)**	(24,991)
Other assets		**(23,318)**	(27,645)
Due to banks		**199,068**	(157,675)
Due to other financial institutions		**175,653**	(52,260)
Customer deposits		**(324,531)**	(8,088)
Other liabilities		**4,235**	15,593
Net cash (used in) from operating activities		**(98,837)**	303,590
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		**79,955**	15,370
Acquisition of investment securities		**(123,931)**	(137,085)
Dividend income from investment securities		**5,954**	4,708
Proceeds from disposal of premises and equipment		**3**	13
Acquisition of premises and equipment		**(123)**	(1,192)
Net cash used in investing activities		**(38,142)**	(118,186)
FINANCING ACTIVITIES			
Other borrowed funds		**30,630**	-
Purchase of treasury shares		**(918)**	(2,822)
Dividend paid		**(18,273)**	(25,415)
Net cash from (used in) financing activities		**11,439**	(28,237)
Net (decrease) increase in cash and short term funds		**(125,540)**	157,167
Cash and short term funds as at 1 January		**682,469**	525,302
Cash and short term funds as at 31 December	3	**556,929**	682,469

The attached notes 1 to 25 form part of these consolidated financial statements.

1- INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait K.P.S.C. ("the Bank") is a public shareholding company incorporated in the State of Kuwait and is registered as a bank with the Central Bank of Kuwait (CBK) and is listed on the Kuwait Stock Exchange (KSE). The registered address of the Bank is P.O. Box 2861, 13029 Safat, State of Kuwait.

The Bank and its subsidiary are together referred to as "the Group" in these consolidated financial statements.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and it was published in the Official Gazette on 1 February 2016 which replaced the Companies Law No 25 of 2012 and its amendments. According to Article No. 5, the new Law will be effective retrospectively from November 26, 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors on 10 January 2017 and are issued subject to the approval of the Annual General Assembly of the Shareholders of the Bank. The Annual General Assembly of the Shareholders has the prerogative to amend these consolidated financial statements after issuance.

The principal activities of the Group are explained in note 23.

2- SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRSs except for the International Accounting Standards (IAS) 39 requirement for collective provision, which has been replaced by the CBK's requirement of a minimum general provision as disclosed in accounting policy on "impairment of financial assets".

The consolidated financial statements are prepared under the historical cost basis of measurement as modified by the revaluation of freehold land, derivative financial instruments and financial assets classified as "at fair value through statement of income" and "available for sale".

These consolidated financial statements are presented in Kuwaiti Dinar, which is the Group's functional currency.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year. Amendments to IFRSs which are effective for accounting period starting 1 January 2016 did not have any material impact on the accounting policies, financial positions or performance of the Group.

Standards issued but not yet effective

The following IASB Standards have been issued / amended but are not yet mandatory, and have not been early adopted by the Group:

i) IFRS 9: Financial Instruments

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with an option to early adopt. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The new standard introduces an 'expected credit loss' model for the measurement of the impairment of financial assets. The Group is in the process of quantifying the impact of this standard on the annual consolidated financial statement, when adopted.

ii) IFRS 15: Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g IFRS 9, and IFRS 16 Leases). This standard will supercede IAS 11 Construction contracts; IAS 18 Revenue; along with IFRIC 13, IFRIC 15; IFRIC 18 and SIC 13 from the effective date.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

iii) IFRS 16: Leases

The IASB issued the new standard for accounting for leases IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of income.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Other new standards or amendments to existing standard are not expected to have a material impact on the consolidated financial statements of the Group.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and a subsidiary (note 18) as at 31 December each year.

Subsidiaries are those entities controlled by the Bank. Control is achieved when the Bank has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns. The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The financial statements of subsidiaries are included in these consolidated financial statements on a line-by-line basis, from the date on which the control is transferred to the Group until the date that such control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on the financial information of the subsidiaries. Intra-group balances, transactions, income and expenses are eliminated in full. Profits and losses resulting from intra-group transactions are also eliminated in full.

Non-controlling interests represents the equity in the subsidiaries not attributable directly, or indirectly, to the equity holders of the Bank. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity. Losses within a subsidiary are attributed to the non controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

i. Derecognises the assets (including goodwill) and liabilities of the subsidiary
ii. Derecognises the carrying amount of any non controlling interest
iii. Derecognises the cumulative translation differences, recorded in equity
iv. Recognises the fair value of the consideration received
v. Recognises the fair value of any investment retained
vi. Recognises any surplus or deficit in profit or loss
vii. Reclassifies the Bank's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(c) Associates

Associates are entities over which the Group has significant influence but not control which is the power to participate in the financial and operating policy decisions of the associate.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Intragroup gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For preparation of consolidated financial statements, uniform accounting polices for similar transactions and other events in similar circumstances are used.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income; and its share of post-acquisition equity movements is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment annually.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained portion of the investment and proceeds from disposal is recognised in the consolidated statement of income.

After the application of the equity method, the Group determines whether it is necessary to recognise impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of profit or loss.

(d) Financial instruments

(i) Classification and measurement

Financial instruments comprises of "financial assets" and "financial liabilities. The Group classifies its financial assets as "at fair value through statement of income", "held to maturity", "loans and receivables" and "available for sale". Financial liabilities are classified as "other than at fair value through statement of income".

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and short term funds, Treasury and Central Bank bonds, Due from (to) banks and other financial institutions, Loans and advances, Investment securities, customer deposits and certain balances included in other assets and other liabilities.

All financial assets are initially recognised at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, except for financial assets classified as "at fair value through statement of income". Management determines the appropriate classification of each instrument at the time of acquisition.

Cash and short term funds

Cash and short term funds comprise cash in hand and current accounts with banks, balances with the CBK and deposits with banks maturing within seven days.

At fair value through statement of income

Financial assets "at fair value through statement of income" are further divided into two sub categories: "held for trading" and "designated at fair value through statement of income at inception". A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets are designated by management upon initial recognition "as at fair value through statement of income", if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. Derivative instruments are categorised as "held for trading" unless they are designated as hedging instruments. Financial assets "at fair value through statement of income" are subsequently remeasured at fair value and gains or losses arising from changes in fair value are included in the consolidated statement of income.

Held to maturity

These are non-derivative financial assets "other than loans and receivables" with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These are subsequently remeasured and carried at amortised cost, less any provision for impairment.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently remeasured and carried at amortised cost, less any provision for impairment.

Available for sale

These are non-derivative financial assets not included in any of the above classifications and are principally acquired to be held for an indefinite period of time; which may be sold in response to needs for liquidity or changes in interest rates or equity prices. These are subsequently remeasured and carried at fair value.

Any resultant unrealised gains and losses arising from changes in fair value are taken to other comprehensive income in the consolidated statement of comprehensive income. When the "available for sale" financial asset is disposed off or impaired, any prior fair value adjustments earlier reported in the other comprehensive income are transferred to the consolidated statement of income.

Financial liabilities

Financial liabilities are classified as "other than at fair value through statement of income". These are subsequently measured at amortised cost using the effective yield.

(ii) Recognition and de-recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All 'regular way' purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in income in accordance with the policy applicable to the related instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

A financial asset is derecognised

1) when the contractual rights to the cash flows from the financial asset expire or;
2) when the Group has transferred substantially all the risks and rewards of ownership or;
3) when it has neither transferred nor retained substantially all risks and rewards of ownership and it no longer has control over the asset or portion of the asset.

If the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognised when the obligation specified in the contract is discharged.

(iii) Derivative financial instruments and hedge accounting

Where derivative contracts are entered into by specifically designating such contracts as a fair value hedge or a cash flow hedge of a recognised asset or liability, the Group accounts for them using hedge accounting principles, provided certain criteria are met.

Changes in the fair value of derivatives that are fair value hedges are recorded in the consolidated statement of income, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

The effective portion of changes in the fair value of derivatives that are cash flow hedges are recognised in the hedge reserve in equity and transferred to the consolidated statement of income when the hedged transaction affects the consolidated statement of income. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated statement of income. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity. When the forecast transaction is no longer expected to occur, the cumulative gain / loss is transferred to the consolidated statement of income.

If such derivative transactions, while providing effective economic hedges under the Group's risk management policies do not qualify for hedge accounting under the specific rules of IAS 39, they are treated as derivatives held for trading. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated financial position. The resultant gains and losses are included in the consolidated statement of income.

(iv) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, guarantees and acceptances on behalf of its customers. Financial guarantees are initially recognised as a liability in the consolidated statement of financial position at fair value, being the fee and commission received. The fee and commission received is amortised over the life of the guarantee and recognised in the consolidated statement of income. The guarantee liability is subsequently carried at initial measurement, less amortisation. When a payment under the guarantee liability is likely to become payable, the present value of the net expected cash flows, less the unamortised fee and commission is charged to the consolidated statement of income.

(v) Renegotiated loans

Loans may be renegotiated by the Group by agreeing to new loan conditions. Once the terms of the loan are renegotiated, the new terms will determine whether these loans remain past due. Such loans continue to be subject to an individual or collective impairment.

(vi) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(vii) Asset pending sale

The Group occasionally acquires assets in settlement of certain loans and advances. Such assets are stated at the lower of the carrying value of the related loans and advances and the current fair value. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

(viii) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial instruments traded in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value for investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price or net asset value.

The fair value of interest bearing financial instruments which are not traded in an active market is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics and dealer price quotations. The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount payable on demand.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using the prevailing market rate or internal pricing models.

The fair value of unquoted equity instruments is determined by reference to the market value of a similar investment, on the estimated discounted cash flows, adjusted net asset value, other appropriate valuation models or dealer price quotations. When the fair values of unquoted equity investments can not be measured reliably, these are stated at cost less impairment losses, if any.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

a) **Level 1:** Quoted (unadjusted) market prices in active markets for identical assets or liabilities
b) **Level 2:** Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
c) **Level 3:** Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(ix) Amortised cost

Amortised cost is computed by taking into account any discount or premium on acquisition of the financial instrument, and fees and costs that are an integral part of the effective interest rate.

(x) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ”loss event”), and that loss event has an impact on the estimated future cash flows of the specific financial asset or group of financial assets that can be reliably estimated. The Group assesses whether objective evidence of impairment exists on an individual basis for significant assets and collectively for others. The criteria that the Group uses to determine whether there is objective evidence of impairment include:

i) Financial assets carried at amortised cost

(A) overdue debit balance in the current account has been constantly showing an excess of 10% of the borrower’s overdraft limit;
(B) overdue debit balance without an authorised limit, irrespective of the value of such a debit balance;
(C) credit facilities have expired and have not been renewed or extended in light of the outcome of the borrower’s financial position;
(D) installments of the loan have not been repaid on their respective due dates;
(E) deterioration of the borrower’s guarantor’s financial position;
(F) the borrower violates any of the agreed covenants, which may adversely affect the credit;
(G) the borrower or guarantor is placed under liquidation or bankruptcy;
(H) evident facts indicate potential crystallization of the borrower’s non-cash facility without timely reimbursement;
(I) the borrower is in default in payment of any obligation to other banks or financial institutions;
(J) legal action initiated by any other bank or financial institution against the borrower or guarantor for recovery of any credit facility.
(K) reduced activity in the borrower’s account so that:
   1) there are no credits in the account for the last six months even if the outstanding is within the overdraft limit.
   2) credits in the account during the year are insufficient to cover the interest debited.
(L) irregularities in documentation which may affect the prospects of recovery of the loan.

The amount of impairment loss for financial assets carried at amortised cost such as loans and advances, is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset’s original effective interest rate. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in impairment charges for credit losses.

In addition, in accordance with the CBK's instructions, a minimum general provision of 1% for cash credit facilities and 0.5% for non cash credit facilities not subject to specific provision and net of certain categories of collateral, is made.

When a loan is not collectible, it is written off against the related allowance account for impairment.

ii) Financial assets classified as available for sale

In the case of financial assets classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the financial assets are impaired. If any such evidence exists for financial assets classified as available for sale, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated statement of income, the impairment loss shall be reversed, with the amount of the reversal recognised in the consolidated statement of income. Impairment losses recognised on available for sale equity investments are not reversed through the consolidated statement of income.

(e) Premises and equipment

Freehold land is stated at fair value and is not depreciated. Fair value is determined by annual appraisals of market value and is performed by independent experts. An increase in the carrying amount of an asset as a result of revaluation is taken to property revaluation reserve through consolidated statement of comprehensive income. A revaluation decrease is charged directly to the property revaluation reserve to the extent that the decrease does not exceed the amount held in reserve for that asset. Any further decrease in the carrying amount of an asset as a result of revaluation is recognized as an expense in the consolidated statement of income. The balance in this reserve is taken directly to retained earnings upon disposal of property.

Buildings and other assets are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost of such assets over their estimated useful lives as follows:

Buildings	up to 20 years
Leasehold improvements	up to 3 years
Furniture and equipment	up to 5 years
Computer hardware and software	up to 5 years

Premises and equipment are reviewed periodically for any impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of income.

(f) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets held for sale are measured at the lower of carrying amount and the fair value less costs to sell. Non-current assets, once classified as held for sale, are not depreciated or amortised.

(g) Intangible assets

Identifiable non-monetary assets acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets with indefinite useful lives are not subject to amortization but tested for impairment annually and whenever there is an indication that the asset may be impaired. Intangible assets which have a finite life are amortized over their useful lives

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so much that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Treasury shares

The Bank's holding in its own shares is stated at acquisition cost. Treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a treasury shares reserve in equity, which is not distributable.

Any realised losses are charged to a treasury share reserve to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve. These shares are not entitled to any cash dividend that the Bank may propose. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

(i) Revenue recognition

Interest income and expense for all interest bearing financial instruments are recognised using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

Once a financial asset or a group of financial assets has been impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income earned for the provision of services over a period of time are accrued over that period. Other fee and commission income are recognised as and when the services are provided. Asset management fees are recognised over the period in which the service is provided.

Dividend income is recognised when the right to receive payment is established.

(j) Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinar at rates of exchange prevailing at value dates of the transactions. Monetary assets and liabilities in foreign currencies and forward foreign currency transactions outstanding at the date of the consolidated statement of financial position are translated into Kuwaiti Dinar at rates of exchange prevailing at the date of consolidated statement of financial position. Any resultant gains or losses are taken to the consolidated statement of income.

In the case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income and net investment in foreign operation, foreign currency exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the income statement, foreign currency exchange differences are recognised in the consolidated statement of income.

(k) End of service pay

The Group is liable under Kuwait Labour Law to make payments to employees for post-employment benefits in respect of defined benefit plans. This liability is finally computed and fully settled at the end of an employee's service.

The Group recognizes this cost as an expense of the year and is calculated based on the accumulated period of service as on the date of consolidated statement of financial position. The Group considers this to be a reliable approximation of the present value of this obligation.

(l) Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

(m) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group.

(n) Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has used judgments and made estimates in determining amounts recognised in the consolidated financial statements. The most significant are as follows:

Judgments

Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income", "held to maturity", "loans and receivables" or "available for sale". The Group follows the guidance of IAS 39 in classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of selling in the short term or if so designated by management upon initial recognition when they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. Debt securities which are not quoted in an active market are classified as "loans and receivables". All other investments are classified as "available for sale".

Impairment of investments

The Group treats "available for sale" equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment. The Group evaluates among other factors, normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be considered appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance; changes in technology; and operational and financing cash flows.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances and investment in debt instruments

The Group reviews problem loans and advances and investments in debt instruments on a quarterly basis to assess whether a loss for impairment should be recognised in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment loss required.

Valuation of unquoted equity investments

Valuation techniques for unquoted investment securities are based on estimates such as expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; recent arm's length market transactions; current fair value of another instrument that is substantially the same; adjusted net asset value of the investee; or other relative valuation models.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions, may have an impact on the carrying value of loan losses and fair values of unquoted equity investments.

Impairment of intangible assets

The Group determines whether intangible assets are impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset. Estimating a "value in use" requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present value of the cash flows.

3- CASH AND SHORT TERM FUNDS

	2016	2015
	KD 000's	KD 000's
Cash and cash items	**232,130**	169,757
Balances with the CBK	**10,935**	1,221
Deposits with banks maturing within seven days	**313,864**	511,491
	556,929	682,469

Cash and short term funds are classified as "loans and receivables".

4- TREASURY AND CENTRAL BANK BONDS

	2016	2015
	KD 000's	KD 000's
Treasury bonds	**192,404**	163,815
Central Bank bonds	**137,166**	168,760
	329,570	332,575

Treasury and Central Bank bonds are classified as "loans and receivables". These are bought from and sold to the CBK as part of the Group's liquidity management.

Treasury bonds issued by the CBK carry a fixed rate of interest until maturity. Central Bank bonds are issued at a discount by the CBK and carry a fixed yield to maturity.

5- DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	2015
	KD 000's	KD 000's
Placements with banks	**430,034**	232,310
Loans and advances to banks	**42,469**	33,708
	472,503	266,018
Less: Provision for impairment	**(425)**	(337)
	472,078	265,681

Due from banks and other financial institutions are classified as "loans and receivables".

6- LOANS AND ADVANCES

(a) Classification

Loans and advances are classified as "loans and receivables". The Group's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below:

As at 31 December 2016

			KD 000's		
	Kuwait	**Asia**	**Europe**	**Others**	**Total**
Trade and commerce	**532,482**	**42,674**	**-**	**-**	**575,156**
Construction and real estate	**654,823**	**22,237**	**-**	**-**	**677,060**
Other financial institutions	**125,270**	**10,341**	**6,184**	**-**	**141,795**
Retail customers	**441,383**	**-**	**-**	**-**	**441,383**
Others	**483,369**	**69,003**	**-**	**3,903**	**556,275**
	2,237,327	**144,255**	**6,184**	**3,903**	**2,391,669**
Less: Provision for impairment					**(141,201)**
					2,250,468

As at 31 December 2015

			KD 000's		
	Kuwait	Asia	Europe	Others	Total
Trade and commerce	509,687	20,511	-	-	530,198
Construction and real estate	691,160	11,373	-	-	702,533
Other financial institutions	124,811	85,588	3,665	-	214,064
Retail customers	446,172	-	-	-	446,172
Others	521,830	29	-	7,641	529,500
	2,293,660	117,501	3,665	7,641	2,422,467
Less: Provision for impairment					(125,001)
					2,297,466

During the year 2013, the Ministry of Finance established the Family Support Fund (the "Fund") under Law No. 104/2013 to purchase outstanding balance of installment and consumer loans from the Banks as on 12 June 2013 for loans granted before 30 March 2008. Accordingly, CBK issued a Circular no. 2/BS,IS/305/2013 to all local banks and investment companies regarding formation of the Fund. The Bank has identified such loans amounting to KD 38,818 thousand and submitted report to CBK for approval, as required by the circular. Interest income on such loans is not recognised from 12 June 2013. At the reporting date, loans amounting to KD 32,615 thousand (2015: KD 32,412 thousand) have been settled.

(b) Movement in provisions for loans and advances

	2016 KD 000's			2015 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**16,594**	**108,272**	**124,866**	13,893	134,483	148,376
Written-off	**(84,042)**	**-**	**(84,042)**	(96,208)	-	(96,208)
Exchange differences	**(1)**	**(5)**	**(6)**	-	43	43
Recoveries	**33,689**	**-**	**33,689**	25,730	-	25,730
Ceded to Central Bank	**(11)**	**-**	**(11)**	(1)	-	(1)
charge / (Released) to consolidated statement of income	**47,996**	**18,578**	**66,574**	73,180	(26,254)	46,926
Provisions 31 December	**14,225**	**126,845**	**141,070**	16,594	108,272	124,866

The policy of the Group for calculation of the impairment provisions for loans and advances complies in all material respects with the specific provision requirements of the CBK.

The specific and general provision for cash credit facilities amounting to KD 141,070 thousand (2015: KD 124,866 thousand) also includes an additional provision amounting to KD 97,500 thousand (2015: KD 78,500 thousand) which is over and above the CBK's minimum general provision requirements. The Group has also suspended interest amounting to KD 131 thousand (2015: KD 135 thousand) on impaired loans. The available provision for non-cash credit facilities of KD 9,028 thousand (2015: KD 8,488 thousand) is included in other liabilities.

(c) Non-performing loans

	2016 KD 000's	2015 KD 000's
Loans and advances	**12,009**	21,877
Collaterals	**486**	6,937
Available provisions	**6,137**	8,749

7- INVESTMENT SECURITIES

	2016 KD 000's	2015 KD 000's
Available for sale		
Debt securities -quoted	**166,433**	134,334
Debt securities -unquoted	**28,406**	24,823
Equity securities -quoted	**161,792**	143,842
Equity securities -unquoted	**32,345**	34,084
Others	**4,358**	1,805
	393,334	338,888

During the year, the Group recognised an unrealised loss of KD 2,578 thousand (2015: unrealised gain of KD 5,748 thousand) in the consolidated statement of comprehensive income as arising from changes in fair value and re-cycled accumulated fair valuation changes of KD 715 thousand (2015: KD 1,839 thousand) to the consolidated statement of income on disposal and impairment of "available for sale" investment securities. Impairment loss of KD 2,102 thousand (2015: KD 970 thousand) was also charged to the consolidated statement of income.

During 2009, the Bank acquired 221,425,059 shares of Boubyan Bank at a cost of KD 94,103 thousand under multiple purchase transactions, all of which were executed under the standard procedures adopted by the KSE. However, at a subsequent date, and as a result of the availability of cash balances in the account of the parent company ("the Borrower") related to the companies which sold the mentioned shares, the Bank utilized these balances to close the loan due from the Borrower. In 2009, the Borrower, along with others, filed a legal case challenging the Bank's ownership of the above mentioned shares which is currently pending at the court of law. In April 2016, the Court of First Instance issued a verdict in favor of the Bank confirming the validity of the Bank's ownership of the above mentioned shares with due observation that there is an interim order from the court restricting the sale of the above mentioned shares. On the basis of legal counsel, management believes that they have a meritorious defense.

During 2010, the Bank participated in the rights issue and acquired 127,058,530 shares at a cost of KD 32,401 thousand and thereafter, during the years 2013 to the reporting date, the Bank received a total of 67,625,226 bonus shares. As at reporting date, the Bank holds title for 248,225,059 shares carried at a fair value of KD 98,049 thousand (31 December 2015: 246,425,059 shares at a fair value of KD 107,194 thousand). As at 31 December 2016, the weighted average cost of 221,425,059 shares under legal restraint is KD 64,891 thousand (31 December 2015: KD 68,136 thousand) and is carried at a fair value of KD 87,463 thousand (31 December 2015: KD 96,320 thousand), with the resultant fair valuation gain of KD 22,572 thousand (31 December 2015: KD 28,184 thousand) recognised in the Investment Valuation Reserve. These shares are part of investment portfolio classified as "available for sale".

In April 2016, based on a legal suit filed by one of the creditors of the Borrower, the Court of Cassation issued a verdict directing the Bank to pay KD 44,059 thousand to the creditor, from the amount utilized by the Bank to settle its loan due from the Borrower. The Bank has subsequently settled this amount. However, the Bank believes that it has a meritorious claim to recover this amount from the Borrower.

8- INVESTMENT IN AN ASSOCIATE

The Group owns a 32.26% (2015: 32.26%) interest in Al Cham Islamic Bank S.A, a private bank incorporated in the Republic of Syria, engaged in Islamic banking activities. This has been fully impaired in the prior years.

9- INTANGIBLE ASSETS

Intangible assets represent the value of a brokerage license KD 3,506 thousand (2015: KD 9,809 thousand). The brokerage license is considered to have an indefinite useful life.

As at 31 December 2016, the carrying value of brokerage license was tested for impairment by estimating the recoverable amount of the cash generating unit to which these items are allocated using value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management over a five-year period and a relevant terminal growth rate of 2.5% (2015: 2.72%). These cash flows were then discounted using a pre-tax discount rate of 9% (2015: 8.73%) to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, the Group has recognised impairment loss of KD 6,303 thousand (2015: KD nil) in the consolidated statement of income.

10- OTHER ASSETS

	2016	2015
	KD 000's	KD 000's
Accrued interest receivable	**3,191**	1,567
Other receivables	**86,774**	78,662
	89,965	80,229

Other assets are classified as "loans and receivables".

Other receivables include assets pending sale amounting to KD 63,058 thousand (2015: KD 66,379 thousand) that was obtained through the settlement of loans and advances.

11- OTHER LIABILITIES

	2016	2015
	KD 000's	KD 000's
Accrued interest payable	**16,134**	10,192
Deferred income	**6,117**	18,985
Provision for non-cash facilities & others	**13,393**	40,462
Staff related accruals	**3,678**	3,493
Others	**61,001**	47,195
	100,323	120,327

12- EQUITY

(a) Share capital

The share capital comprises of 1,496,661,492 (2015: 1,411,944,804) authorized, subscribed and fully paid ordinary shares of 100 fils each. For detailed qualitative disclosure on capital management, please refer to note II "Capital adequacy" of the Public Disclosures on Capital Adequacy Standard.

(b) Treasury shares

	2016	2015
Number of treasury shares	**8,000,000**	5,637,773
Percentage of total shares issued	**0.53%**	0.40%
Cost of shares (KD 000's)	**3,740**	2,822
Fair value of shares (KD 000's)	**3,280**	2,819
Weighted average fair value per treasury share (fils)	**449**	509

Movement in treasury shares are as follows:

	No. of shares	
	2016	2015
Balance as at 1 January	**5,637,773**	-
Purchases	**1,983,624**	5,637,773
Bonus issue	**378,603**	-
Balance as at 31 December	**8,000,000**	5,637,773

The Board of Directors has been given the authority to purchase treasury shares up to a maximum of 10% of the share capital of the Bank.

An amount equal to the cost of treasury shares is not available for distribution from general reserve throughout the holding period of these treasury shares.

(c) Share premium

This represents the excess over the nominal value collected on the issue of shares and is not available for distribution.

(d) Statutory and general reserves

In accordance with the Companies Law and the Bank's Articles of Association, the Bank has resolved not to transfer any amount from the current year profit to statutory reserve as the statutory reserve has exceeded 50% of the share capital.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of upto 5% of share capital in years when accumulated profits are not sufficient for the payment of dividend.

The general reserve was created in accordance with the Bank's Articles of Association and is available for distribution. During the years 2016 and 2015 there were no transfers to general reserve.

(e) Property revaluation reserve

This represents surplus arising from the revaluation of property.

(f) Investment valuation reserve

This represents gains or losses arising from changes in the fair value of "available for sale" investment securities. The balance in this reserve is transferred to the consolidated statement of income when the underlying assets are disposed off or impaired.

(g) Proposed dividend and bonus shares

The Extraordinary General Meeting of shareholders held on 26 March 2016 resolved to increase the authorised share capital of the Bank from KD 141,194 thousand to KD 149,666 thousand.

Annual General Assembly of the shareholders' held on 26 March 2016 approved to distribute cash dividend of 13 fils per share (2014: 18 fils per share) and 6 bonus shares for every 100 shares held (2014: nil) for the year 2015. Subsequently, the cash dividend was paid and the bonus shares increased the number of shares by 84,716,688 and accordingly, the share capital by KD 8,472 thousand.

The Board of Directors has proposed a cash dividend of 15 fils per share (2015: 13 fils per share) and 10 bonus shares for every 100 shares held (2015: 6 bonus shares for every 100 shares held). This proposal is subject to shareholders' approval and shall be payable to the shareholders registered in the Bank's records as of the date of the Annual General Assembly.

13- INTEREST INCOME

Interest income includes a release of KD 49 thousand (2015: KD 624 thousand) due to adjustments arising from revised estimates of future cash flows, discounted at the original contracted rates of interest from a portfolio of performing loans that have had their terms modified during the years 2007 and 2008, as per Central Bank circulars 2/202BS RSA/2007 dated February 13, 2007 and 2/105 dated April 23, 2008.

14- NET GAIN FROM INVESTMENT SECURITIES

	2016	2015
	KD 000's	KD 000's
Realised gain on sale of investments classified as available for sale	**1,263**	2,427

15- IMPAIRMENT AND OTHER PROVISIONS

The following amounts were (charged) / released to the consolidated statement of income:

	2016	2015
	KD 000's	KD 000's
Loans and advances - specific	**(81,685)**	(98,910)
Loans and advances - recoveries	**33,689**	25,730
Loans and advances - general	**(18,666)**	25,991
Investment securities	**(2,102)**	(970)
Non cash facilities	**(535)**	(1,464)
Other provisions	**20,672**	(1,381)
	(48,627)	(51,004)

16- TAXATION

	2015	2014
	KD 000's	KD 000's
National Labour Support Tax (NLST)	**(1,208)**	(1,139)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)	**(526)**	(485)
Zakat	**(471)**	(440)
	(2,205)	(2,064)

The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year.

The Group calculates the contribution to KFAS at 1% of profit for the year, in accordance with the calculation based on the Foundation's Board of Directors resolution, which states that the Board of Directors' remuneration and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58 of 2007.

17- EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of shares outstanding during the year.

	2016	2015
Net profit for the year attributable to shareholders of the Bank (KD 000's)	**50,401**	46,185
Weighted average of authorised and subscribed shares (numbers in 000's)	**1,496,661**	1,496,661
Less: Weighted average of treasury shares held (numbers in 000's)	**(7,453)**	(717)
	1,489,208	1,495,944
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	**33.8**	30.9

Basic and diluted earnings per share for the current and comparative period presented have been adjusted to reflect the effect of bonus shares approved by the regulatory authorities.

18- SUBSIDIARY

			% of Ownership	
Name of Entity	Country of Incorporation	Principal Business	2016	2015
Al-Tijari Financial Brokerage Company K.S.C. (Closed) (Formerly Union Securities Brokerage Company K.S.C. (Closed))	Kuwait	Brokerage services	**93.55%**	80.00%

19- RELATED PARTY TRANSACTIONS

During the year, certain related parties (directors and officers of the Group, their families and companies of which they are principal owners) were customers of the Group in the ordinary course of business. The terms of these transactions are approved by the Group's management. The balances at the date of consolidated statement of financial position are as follows:

	2016			2015		
	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's
Board of Directors						
Loans	**2**	**-**	**80**	2	-	98
Credit cards	**6**	**-**	**8**	-	-	-
Deposits	**10**	**-**	**194**	9	-	239
Executive Managemen						
Loans	**8**	**-**	**105**	6	-	41
Credit cards	**12**	**1**	**16**	7	1	15
Deposits	**12**	**-**	**476**	12	-	435

The loans issued to directors, key management personnel and related members are repayable within 5 to 10 years and have interest rates ranging from 0% to 5% (2015: 0% to 5%).

Details of compensation for key management including remuneration of the Chief Executive Officer amounting to KD 191 thousand (31 December 2015 KD: 179 thousand) are as follows:

	2016 KD 000's	2015 KD 000's
Salaries and other short-term benefits	**1,056**	939
Post employment benefits	**8**	3
End of service benefits	**100**	46

The remuneration to the Chairman and members of the Board of Directors is KD 300 thousand (31 December 2015: KD 300 thousand) and KD 230 thousand (31 December 2015: KD 229 thousand) respectively for assignments performed by them related to the Board Committees.

Note XII "Remuneration" relating to the Public Disclosures on Capital Adequacy Standard disclosed based on the capital adequacy regulations issued by CBK as stipulated in CBK circular number 2/BS//IBS/336/2014 dated 24 June 2014 include further disclosures on key management remuneration.

20- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having short-term maturity (less then three months) it is assumed that the carrying amount approximates to their fair value. The assumption is also applied to demand deposits, saving accounts without the specific maturity and variable rate financial instruments.

Financial assets and liabilities that are carried at amortized cost, are not materially different from their fair values as most of these financial assets and liabilities are of short term maturities or repriced immediately based on market movement in interest rates.

The techniques and assumptions used to determine fair values of financial instruments are described in the fair value section of note 2(ix): "Significant Accounting Policies".

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2016			
	KD 000's			
Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through statement of income:				
Derivative financial instruments (note 21)	**-**	**4,782**	**-**	**4,782**
Financial assets available for sale:				
Equity securities	**161,792**	**32,345**	**-**	**194,137**
Debt securities	**166,433**	**28,406**	**-**	**194,839**
Others	**-**	**4,358**	**-**	**4,358**
	328,225	**65,109**	**-**	**393,334**

During the year ended 31 December 2016, there were no transfers between level 1, level 2 and level 3.

	2015			
	KD 000's			
Financial Instruments	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through statement of income:				
Derivative financial instruments (note 21)	-	(1,323)	-	(1,323)
Financial assets available for sale:				
Equity securities	143,842	34,084	-	177,926
Debt securities	134,334	24,823	-	159,157
Others	-	1,805	-	1,805
	278,176	60,712	-	338,888

21- FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

As a commercial bank, the Group's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates and for various periods and seeks to invest these funds in high quality assets at a fair interest margin while maintaining sufficient liquidity to meet the Group's needs.

The Group also seeks to raise interest margins through lending to commercial and retail borrowers with a range of credit ratings. Such exposures involve not only loans and advances but also guarantees and other commitments such as letters of credit issued by the Bank.

The use of financial instruments also brings with it the associated inherent risks. The Group recognises the relationship between returns and risks associated with the use of financial instruments and the management of risks form an integral part of the Group's strategic objectives.

(b) Overall risk management

The strategy of the Group is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Group's major risk-based lines of business. The Group continuously reviews its risk management policies and practices to ensure that the Group is not subject to large asset valuation volatility and earnings volatility. For detailed qualitative disclosure on the risk management functions please refer to note V, "Risk management", of the Public Disclosures on Capital Adequacy Standard.

The Group's risk management measures are based on the specific type of risks as mentioned below:

(i) CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

For detailed qualitative disclosure on the credit risk measurement please refer to note V(a),"Risk management - Credit risk", of the Public Disclosures on Capital Adequacy Standard.

(A) Credit risk concentration

The credit risk concentration within loans and advances, which form the significant portion of assets subject to credit risk, is given in note 6.

(B) Maximum exposure to credit risk before collateral held or other credit enhancements

The following table represents the maximum credit risk exposure at the date of consolidated statement of financial position without taking account of any collateral and other credit enhancements.

	2016	2015
	KD 000's	KD 000's
Credit exposure relating to on-balance sheet items		
Cash and short term funds	556,929	682,469
Treasury and Central Bank bonds	329,570	332,575
Due from banks and OFIs	472,078	265,681
Loans and advances - Corporate	1,818,803	1,862,295
Loans and advances - Retail	431,665	435,171
Debt securities	194,839	159,157
Other assets	26,907	27,828
	3,830,791	3,765,176
Credit exposure relating to off-balance sheet items		
Acceptances	47,947	28,249
Letters of credit	137,689	101,051
Letters of guarantee	1,330,501	1,069,073
	1,516,137	1,198,373
	5,346,928	4,963,549

The primary purpose of off balance sheet financial instruments is to ensure that funds are available to customers as required. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(C) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

For detailed qualitative disclosure on the collateral and other credit enhancements please refer to note VII " Credit risk mitigation", of the Public Disclosures on Capital Adequacy Standard.

(D) Credit quality of credit exposure

The following table represents the gross credit risk exposure by credit quality of loans and advances by class, grade and status.

	KD 000's						
	Neither past due nor impaired			Past due but not impaired		Impaired	Fair value of collateral
	Superior grade	Good	Standard grade	0 - 60 days	61 - 90 days		
As at 31 December 2016							
Banks	**-**	**-**	**42,469**	**-**	**-**	**-**	**-**
Corporate	**171,380**	**833,700**	**469,252**	**465,482**	**9,130**	**1,342**	**473**
Retail	**-**	**-**	**388,965**	**41,751**	**-**	**10,667**	**13**
	171,380	**833,700**	**900,686**	**507,233**	**9,130**	**12,009**	**486**
As at 31 December 2015							
Banks	-	-	33,708	-	-	-	-
Corporate	175,721	668,054	775,471	347,488	52	9,509	6,925
Retail	-	-	391,080	42,724	-	12,368	12
	175,721	668,054	1,200,259	390,212	52	21,877	6,937

The Group's risk grading system is a systematic methodology for analysing risk factors associated with the extension of credit. The Group uses the external ratings of credit rating agencies for the assessment of banks and financial institution and an internal grading for corporate customers. The parameters that are considered while risk grading the customers include financial condition and performance, quality of financial information and management, facility structure, collateral and support arrangements and country risk, where applicable. The system follows a scale of 1 to 11, with 1 being the best risk and 11 being bad. The superior, good and standard grades are determined on the following basis:

	Internal	External
Superior grade	Grades 1 to 4	Ratings AAA, AA & A
Good grade	Grades 5 & 6	Rating BBB
Standard grade	Grades 7 & 8	Below BBB and unrated

(E) Concentration of financial assets and off-balance sheet items

	2016 KD 000's		2015 KD 000's	
	Assets	**Off Balance Sheet**	Assets	Off Balance Sheet
Geographic sector				
Kuwait	**3,226,382**	**1,023,027**	3,162,596	853,376
Asia	**684,098**	**324,737**	717,368	272,791
Europe	**85,727**	**110,720**	43,893	50,735
USA	**2,042**	**51,376**	1,420	16,779
Others	**31,037**	**6,277**	19,630	4,692
	4,029,286	**1,516,137**	3,944,907	1,198,373
Industry sector				
Government	**329,570**	**-**	332,574	-
Trade and commerce	**543,868**	**301,134**	505,290	270,702
Construction and real estate	**655,084**	**776,652**	684,444	600,098
Banks and financial institutions	**1,494,773**	**309,510**	1,449,515	253,416
Others	**1,005,991**	**128,841**	973,084	74,157
	4,029,286	**1,516,137**	3,944,907	1,198,373

(F) Financial instruments with contractual or notional amounts that are subject to credit risk

In the ordinary course of business the Group uses derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk.

The fair valuation gain or loss of the derivatives held for trading is taken to the consolidated statement of income.

	KD 000's						
			Notional amount by term maturity				
	Positive fair value	Negative fair value	Up to 1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Total
As at 31 December 2016							
Forward Foreign exchange Contracts	**6,769**	**2,578**	**272,279**	**346,129**	**195,800**	**-**	**814,208**
Interest Rate Swaps	**636**	**45**	**-**	**-**	**-**	**94,488**	**94,488**
	7,405	**2,623**	**272,279**	**346,129**	**195,800**	**94,488**	**908,696**
As at 31 December 2015							
Forward Foreign exchange Contracts	945	2,435	272,556	41,773	47,364	-	361,693
Interest Rate Swaps	170	3	-	-	-	51,674	51,674
	1,115	2,438	272,556	41,773	47,364	51,674	413,367

(ii) MARKET RISK

Market risk is the risk that the fair value or the future cash flows of the financial instruments will fluctuate due to changes in the market variables such as interest rates, foreign exchange rates and equity prices. For detailed qualitative disclosure on the market risk please refer to note V(b),"Risk management - Market risk", of the Public Disclosures on Capital Adequacy Standard.

(A) Interest rate risk

Interest rate risk arises from the difference in repricing maturities of assets and liabilities. The majority of the Group's assets and liabilities reprice within one year. The Group manages the risk by matching the repricing of assets and liabilities by setting up a tolerance limit. The exposure is regularly measured by reviewing the risk to the set tolerance limit. For detailed qualitative disclosure on the interest rate risk please refer to note V(d), "Risk management - Interest rate risk", of the Public Disclosures on Capital Adequacy Standard.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact on the consolidated statement of income of the Group over a period of one year as follows:

		KD 000's	
	'Basis points	**2016**	2015
Kuwaiti dinar	+ 25	**2,641**	2,265
US dollar	+ 25	**211**	48
Other currencies	+ 25	**174**	133
		3,026	2,446

(B) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group views itself as a Kuwaiti entity, with Kuwaiti Dinar as its functional currency. Net exposure in currency is managed by setting overall limits by the Board of Directors and regularly monitoring through technological and managerial controls. Hedging transactions are also used to manage risks in other currencies. For detailed qualitative disclosure on the currency risk refer to note V(b),"Risk management - Market risk", of the Public Disclosures on Capital Adequacy Standard.

The table below shows the effect on consolidated statement of income and changes in equity, as a result of strengthening in currency rate, with all other variables held constant. A negative amount reflects a potential net reduction in consolidated statement of income or changes in equity, where as a positive amount reflects a net potential increase.

		KD 000's			
		2016		2015	
	% Change in currency rates	**Statement of income**	**Equity**	Statement of income	Equity
US Dollar	**+5**	**(5)**	**6,033**	(72)	5,647
Euro	**+5**	**2**	**205**	11	263
Sterling Pound	**+5**	**3**	**2,252**	2	1,100
Australian Dollar	**+5**	**40**	**-**	32	-
UAE Dirham	**+5**	**108**	**-**	(13)	-
Qatari Riyal	**+5**	**44**	**-**	47	-
Others	**+5**	**37**	**-**	23	-
		229	**8,490**	30	7,010

(C) Equity price risk

Equity price risk is the risk that the fair value of equities fluctuate as a result of changes in the level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. For detailed qualitative disclosure on the equity price risk please refer to note V(b),"Risk management - Market risk", of the Public Disclosure on Capital Adequacy Standard.

The effect on the consolidated statement of income and the consolidated statement of changes in equity due to possible changes in equity indices, with all other variables held constant, is as follows:

		KD 000's			
		2016		2015	
	% Change in currency rates	Statement of income	Equity	Statement of income	Equity
Kuwait Stock Exchange	+ 5	-	8,090	-	7,182

(iii) LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can arise from market disruptions or credit down grading which may cause certain sources of funding to dry up immediately. For more detailed disclosure on liquidity risk control please refer to note V(c),"Risk management - Liquidity risk", of the Public Disclosures on Capital Adequacy Standard.

(A) The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the date of consolidated statement of financial position to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of the liquid funds. It is unusual for the Group to ever completely match the maturities of their assets and liabilities since business transacted is often of uncertain term and of different type. However, the management constantly monitors its maturity profile to ensure that adequate liquidity is maintained at all times.

	KD 000's					
As at 31 December 2016	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
ASSETS						
Cash and short term funds	556,929	-	-	-	-	556,929
Treasury and Central Bank bonds	329,095	386	89	-	-	329,570
Due from banks and OFIs	100,734	274,245	55,134	-	41,965	472,078
Loans and advances	144,742	438,161	316,410	379,466	971,689	2,250,468
Investment securities	327,142	55	20	-	66,117	393,334
Premises and equipment	-	-	-	-	29,439	29,439
Intangible assets	-	-	-	-	3,506	3,506
Other assets	19,190	2,223	1,093	-	67,459	89,965
	1,477,832	715,070	372,746	379,466	1,180,175	4,125,289
LIABILITIES						
Due to banks	209,852	77,101	69,019	10,000	-	365,972
Due to other financial institutions	90,555	132,491	917	261,725	317,197	802,885
Customer deposits	1,396,045	380,363	345,796	89,205	10,223	2,221,632
Other borrowed funds	30,630	-	-	-	-	30,630
Other liabilities	53,853	8,825	5,375	3,442	28,828	100,323
	1,780,935	598,780	421,107	364,372	356,248	3,521,442
Net liquidity gap	(303,103)	116,290	(48,361)	15,094	823,927	603,847

	KD 000's					
As at 31 December 2015	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
ASSETS						
Cash and short term funds	682,469	-	-	-	-	682,469
Treasury and Central Bank bonds	332,234	229	112	-	-	332,575
Due from banks and OFIs	73,407	44,768	92,948	21,263	33,295	265,681
Loans and advances	205,525	403,759	204,371	498,640	985,171	2,297,466
Investment securities	277,104	446	457	1,400	59,481	338,888
Premises and equipment	-	-	-	-	30,234	30,234
Intangible assets	-	-	-	-	9,809	9,809
Other assets	11,216	263	893	59	67,798	80,229
	1,581,955	449,465	298,781	521,362	1,185,788	4,037,351
LIABILITIES						
Due to banks	142,533	16,201	8,170	-	-	166,904
Due to other financial institutions	139,092	48,106	175,936	226,524	37,574	627,232
Customer deposits	1,569,497	653,043	220,218	54,487	48,918	2,546,163
Other liabilities	40,065	4,818	4,857	4,165	66,422	120,327
	1,891,187	722,168	409,181	285,176	152,914	3,460,626
Net liquidity gap	(309,232)	(272,703)	(110,400)	236,186	1,032,874	576,725

(B) Contractual expiry by maturity.

	KD 000's					
As at 31 December 2016	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
Contingent Liabilities	**116,896**	**246,106**	**180,100**	**200,891**	**772,144**	**1,516,137**
As at 31 December 2015						
Contingent Liabilities	811	-	-	164,386	1,033,176	1,198,373

(C) Contractual undiscounted repayment obligations by maturity.

	KD 000's					
As at 31 December 2016	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
UNDISCOUNTED LIABILITIES						
Due to banks	**209,881**	**77,188**	**69,353**	**10,131**	**-**	**366,553**
Due to other financial institutions	**90,572**	**133,057**	**923**	**266,274**	**326,853**	**817,679**
Customer deposits	**1,396,130**	**380,876**	**347,206**	**90,240**	**10,411**	**2,224,863**
Other borrowed funds	**30,655**	**-**	**-**	**-**	**-**	**30,655**
Other liabilities	**53,853**	**8,825**	**5,375**	**3,442**	**28,828**	**100,323**
	1,781,091	**599,946**	**422,857**	**370,087**	**366,092**	**3,540,073**

As at 31 December 2015						
UNDISCOUNTED LIABILITIES						
Due to banks	142,556	16,205	8,188	-	-	166,949
Due to other financial institutions	139,208	48,237	177,122	229,611	38,351	632,529
Customer deposits	1,569,591	653,890	220,886	54,771	50,514	2,549,652
Other liabilities	40,065	4,818	4,857	4,165	66,422	120,327
	1,891,420	723,150	411,053	288,547	155,287	3,469,457

22- OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The business and support units have primary responsibility for identifying, assessing and managing their operational risks. They employ internal control techniques to reduce their likelihood or impact to tolerable levels within the Group's risk appetite. Where appropriate, risk is mitigated by way of insurance.

For detailed qualitative disclosure on operational risk control please refer to note V(e),"Risk management - Operational risk", of the Public Disclosures on Capital Adequacy Standard.

23- SEGMENTAL ANALYSIS

The Group operates in banking, brokerage services and investment banking activities, which is segmented between:

a) Corporate and Retail banking provides a full range of lending, deposit and related banking services to domestic and international corporate and individual customers.
b) Treasury and Investment banking comprises of money market, foreign exchange, treasury bonds and brokerage services.

Management monitors the operating results of these segments separately for the purpose of making decisions based on key performance indicators.

	KD 000's					
	Corporate and Retail Banking		Treasury and Investment Banking		Total	
	2016	2015	**2016**	2015	**2016**	2015
Net interest income	**76,182**	76,345	**8,573**	6,960	**84,755**	83,305
Non interest income	**42,432**	40,451	**13,157**	12,468	**55,589**	52,919
Operating income	**118,614**	116,796	**21,730**	19,428	**140,344**	136,224
Impairment and other provisions	**(66,855)**	(49,911)	**18,228**	(1,093)	**(48,627)**	(51,004)
Net profit for the year	**28,018**	44,365	**22,384**	1,785	**50,402**	46,150
Total Assets	**2,366,095**	2,432,358	**1,759,194**	1,604,993	**4,125,289**	4,037,351
Total Liabilities and Equity	**1,502,316**	1,588,563	**2,622,973**	2,448,788	**4,125,289**	4,037,351

24- OFF BALANCE SHEET ITEMS

(a) Financial instruments with contractual amounts

In the normal course of business the Group makes commitments to extend credit to customers. The contracted amounts represent the credit risk assuming that the amounts are fully advanced and that any collateral is of no value. The total contractual amount of the commitment does not necessarily represent the future cash requirement as in many cases these contracts terminate without being funded.

(b) Legal claims

At the date of consolidated statement of financial position certain legal claims existed against the Group and for which KD 366 thousand (2015: KD 1,974 thousand) has been provided.

25- CAPITAL ADEQUACY

The disclosures relating to Capital Adequacy Regulations issued by CBK as stipulated in circular number 2BS/IBS/336/2014 dated 24 June 2014 are included under the "Public Disclosures on Capital Adequacy Standard" section of the annual report.

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 December 2016

The following detailed qualitative and quantitative public disclosures are being provided in accordance with Central Bank of Kuwait (CBK) rules and regulations on Capital Adequacy Standard Basel III issued through Circular No. 2/BS/IBS/336/2014 on June 24, 2014. The purpose of these disclosures is to complement the capital adequacy requirements (Pillar 1) and the supervisory review process (Pillar 2). Moreover, these disclosure requirements shall enable and allow market participants to assess key pieces of information about a licensed bank's exposure to risks and provides a consistent and understandable disclosure framework that enhances comparability.

I- Subsidiaries and significant investments

The Commercial Bank of Kuwait K.P.S.C (the "Bank") has a subsidiary, Al-Tijari Financial Brokerage Company K.S.C (Closed) - (93.55% owned) engaged in brokerage services and owns a 32.26% interest in Al Cham Islamic Bank S.A (an associate), a private bank incorporated in Republic of Syria engaged in Islamic banking activities. The Bank and its subsidiary are collectively referred to as "the Group".

II- Capital structure

Share Capital – Share capital comprises of 1,496,661,492 (31 December 2015: 1,411,944,804) authorised, subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2016, the Bank held 8,000,000 treasury shares (31 December 2015: KD 5,637,773).

The Group has the following components of Tier 1 and Tier 2 capital base:

	2016	2015
	KD 000's	KD 000's
a. Tier 1 capital consist of:		
i Common equity tier 1 (CET1)		
1 - Paid-up share capital	**149,666**	141,194
2 - Proposed bonus shares	**14,967**	8,472
3 - Share premium	**66,791**	66,791
4 - Retained earnings	**165,190**	152,077
5 -Investment valuation reserve	**28,689**	31,724
6 -Property revaluation reserve	**25,282**	26,078
7 -Statutory reserve	**115,977**	115,977
8 -General reserve	**17,927**	17,927
9 -Treasury shares reserve	**-**	-
10- Other intangibles	**(3,506)**	(9,809)
11- Treasury shares	**(3,740)**	(2,822)
12- Non significant investments in banking, financial and insurance entities	**-**	-
13- Significant investments in banking, financial and insurance entities	**(36,325)**	(22,434)
Total	**540,918**	525,175

	2016 KD 000's	2015 KD 000's
(ii) Additional tier 1		
Non-controlling interests in consolidated subsidiaries	**768**	1,025
Total	**768**	1,025
Total tier 1 capital	**541,686**	526,200
b. Tier 2 capital.		
General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	**38,678**	36,376
Total tier 2 capital	**38,678**	36,376
Total eligible capital	**580,364**	562,576

III- Capital adequacy

The Standardised Approach has been adopted for computation of capital charge for credit risk, market risk and operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to CBK. The Group has in place a framework for planning, assessing and reporting for capital adequacy and to ensure that the present and future operations of the Group are supported by adequate capital at all times. The Group monitors its capital adequacy against higher internal floor limits. In addition, evaluation of any strategic initiative necessarily includes appraisal of capital adequacy requirements. Internal assessment of capital has been enhanced through introduction of a framework for measuring economic capital for each risk type and on an enterprise-wide basis.

A. Capital requirement

	2016			2015		
	Gross exposures	**Net risk weighted assets**	**Capital requirement**	Gross exposures	Net risk weighted assets	Capital requirement
	KD 000's	**KD 000's**	**KD 000's**	KD 000's	KD 000's	KD 000's
a. Credit risk						
1 - Claims on sovereigns	**409,440**	**7,660**	**996**	333,795	-	-
2 - Claims on international organisations	**-**	**-**	**-**	-	-	-
3 - Claims on PSEs	**97,769**	**-**	**-**	-	-	-
4 - Claims on MDBs	**3,850**	**1,925**	**250**	7,628	3,814	477
5 - Claims on banks	**1,266,276**	**389,716**	**50,663**	1,156,616	323,991	40,499
6 - Claims on corporates	**2,933,147**	**1,756,208**	**228,307**	2,853,754	1,722,138	215,267
7 - Claims on central counter parties	**-**	**-**	**-**	-	-	-
8 - Cash items	**232,130**	**-**	**-**	169,758	-	-
9 - Regulatory retail	**452,732**	**436,688**	**56,769**	460,285	441,904	55,238
10- RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-

	2016			2015		
	Gross exposures	Net risk weighted assets	Capital requirement	Gross exposures	Net risk weighted assets	Capital requirement
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
11- Past due exposure	6,051	4,367	568	13,426	6,803	850
12- Other assets	323,470	402,891	52,376	272,851	334,448	41,806
13- Claims on securitised assets	-	-	-	-	-	-
Total	5,724,865	2,999,455	389,929	5,268,113	2,833,098	354,137
b. Market risk						
1 - Interest rate position risk	-	-	-	-	-	-
2 - Equities position risk	-	-	-	-	-	-
3 - Foreign exchange risk	4,846	4,847	630	2,389	2,390	299
4 - Commodities risk	-	-	-	-	-	-
5 - Options	-	-	-	-	-	-
Total	4,846	4,847	630	2389	2,390	299
c. Operational risk	130,231	231,455	30,089	125,570	224,026	28,003
Total	5,859,942	3,235,757	420,648	5,396,072	3,059,514	382,439

B - Capital ratios

	2016	2015
1 - Total capital ratio	17.94%	18.39%
2 - Tier 1 capital ratio	16.74%	17.20%
3 - CET 1 capital ratio	16.72%	17.17%

C- Additional capital disclosure

1- Common disclosure template

	2016 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
Common Equity Tier 1 capital: Instruments and Reserves		
1 - Directly issued qualifying common share capital plus related share premium	216,457	h+k
2 - Retained earnings	165,190	q
3 - Accumulated other comprehensive income (and other reserves)	202,842	i+l+m+n+o+p

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	2016 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
4 - Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5 - Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
6 - Common Equity Tier 1 capital before regulatory adjustments	**584,489**	
7 - Prudential valuation adjustments	-	
8 - Goodwill (net of related tax liability)	-	
9 - Other intangibles other than mortgage-servicing rights (net of related tax liability)	**3,506**	**f**
10 - Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11 - Cash-flow hedge reserve	-	
12 - Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	-	
13 - Securitization gain on sale	-	
14 - Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15 - Defined-benefit pension fund net assets	-	
16 - Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**3,740**	**j**
17 - Reciprocal cross-holdings in common equity of banks, FIs, and insurance entities	-	
18 - Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)	-	
19 - Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	**36,325**	**c**
20 - Mortgage servicing rights (amount above 10% threshold of bank's C ET1 capital)	-	
21 - Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	

	2016 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
22 - Amount exceeding the 15% threshold	-	
23 - of which: significant investments in the common stock of financials	-	
24 - of which: mortgage servicing rights	-	
25 - of which: deferred tax assets arising from temporary differences	-	
26 - National specific regulatory adjustments	-	
27 - Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28 - Total regulatory adjustments to Common equity Tier 1	**43,571**	
29 - Common Equity Tier 1 capital (CET1) after regulatory adjustments	**540,918**	
Additional Tier 1 Capital: Instruments		
30 - Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31 - of which: classified as equity under applicable accounting standards	-	
32 - of which: classified as liabilities under applicable accounting standards	-	
33 - Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34 - Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**768**	**r**
35 - of which: instruments issued by subsidiaries subject to phase-out	-	
36 - Additional Tier 1 capital before regulatory adjustments	**768**	
Additional Tier 1 Capital: Regulatory Adjustments		
37 - Investments in own Additional Tier 1 instruments	-	
38 - Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39 - Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above 10% threshold)	-	
40 - Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	

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	2016 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
41 - National specific regulatory adjustments	-	
42 - Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43 - Total regulatory adjustments to Additional Tier 1 capital	-	
44 - Additional Tier 1 capital (AT1)	**768**	
45 - Tier 1 capital (T1 = CET1 + AT1)	**541,686**	
Tier 2 Capital: Instruments and Provisions		
46 - Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47 - Directly issued capital instruments subject to phase-out from Tier 2	-	
48 - Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49 - of which: instruments issued by subsidiaries subject to phase-out	-	
50 - General Provisions included in Tier 2 capital	**38,678**	**b**
51 - Tier 2 capital before regulatory adjustments	**38,678**	
Tier 2 Capital: Regulatory Adjustments		
52 - Investments in own Tier 2 instruments	-	
53 - Reciprocal cross-holdings in Tier 2 instruments	-	
54 - Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55 - Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56 - National specific regulatory adjustments	-	
57 - Total regulatory adjustments to Tier 2 capital	-	
58 - Tier 2 capital (T2)	**38,678**	
59 - Total capital (TC = T1 + T2)	**580,364**	
60 - Total risk weighted assets	**3,235,757**	

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	2016 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
Capital Ratios and Buffers		
61 - Common Equity Tier 1 (as a percentage of risk weighted assets)	**16.72%**	
62 - Tier 1 (as a percentage of risk weighted assets)	**16.74%**	
63 - Total capital (as a percentage of risk weighted assets)	**17.94%**	
64 - Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	**10.00%**	
65 - of which: capital conservation buffer requirement	**2.50%**	
66 - of which: bank specific countercyclical buffer requirement	**-**	
67 - of which: D-SIB buffer requirement	**0.50%**	
68 - Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**9.72%**	
National Minima		
69 - National Common Equity Tier 1 minimum ratio	**9.50%**	
70 - National Tier 1 minimum ratio	**11.00 %**	
71 - National total capital minimum ratio excluding CCY and DSIB buffers	**13.00 %**	
Amounts below the Thresholds for Deduction (before Risk Weighting)		
72 - Non-significant investments in the capital of financials institutions	**52,347**	**e**
73 - Significant investments in the common stock of financials institutions	**57,724**	**d**
74 - Mortgage servicing rights (net of related tax liability)	**-**	
75 - Deferred tax assets arising from temporary differences (net of related tax liability)	**-**	
Applicable Caps on the Inclusion of Provisions in Tier 2		
76 - Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**133,431**	**a + g**
77 - Cap on inclusion of provisions in Tier 2 under standardized approach	**38,678**	**b**
78 - Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	
79 - Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	

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	2015 KD 000's	
	Component of capital disclosure template	cross reference from consolidated regulatory financial position
Common Equity Tier 1 capital: Instruments and Reserves		
1 - Directly issued qualifying common share capital plus related share premium	207,985	h+k
2 - Retained earnings	152,077	q
3 - Accumulated other comprehensive income (and other reserves)	200,178	i+l+m+n+o+p
4 - Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5 - Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
6 - Common Equity Tier 1 capital before regulatory adjustments	560,240	
Common Equity Tier 1 Capital: Regulatory Adjustments		
7 - Prudential valuation adjustments	-	
8 - Goodwill (net of related tax liability)	-	
9 - Other intangibles other than mortgage-servicing rights (net of related tax liability)	9,809	f
10 - Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11 - Cash-flow hedge reserve	-	
12 - Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	-	
13 - Securitization gain on sale	-	
14 - Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15 - Defined-benefit pension fund net assets	-	
16 - Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	2,822	j
17 - Reciprocal cross-holdings in common equity of banks, FIs, and insurance entities	-	
18 - Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)	-	

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	2015 KD 000's	
	Component of capital disclosure template	cross reference from consolidated regulatory financial position
19 - Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	22,434	c
20 - Mortgage servicing rights (amount above 10% threshold of bank's C ET1 capital)	-	
21 - Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22 - Amount exceeding the 15% threshold	-	
23 - of which: significant investments in the common stock of financials	-	
24 - of which: mortgage servicing rights	-	
25 - of which: deferred tax assets arising from temporary differences	-	
26 - National specific regulatory adjustments	-	
27 - Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28 - Total regulatory adjustments to Common equity Tier 1	35,065	
29 - Common Equity Tier 1 capital (CET1) after regulatory adjustments	525,175	
Additional Tier 1 Capital: Instruments		
30 - Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31 - of which: classified as equity under applicable accounting standards	-	
32 - of which: classified as liabilities under applicable accounting standards	-	
33 - Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34 - Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	1,025	r
35 - of which: instruments issued by subsidiaries subject to phase - out	-	
36 - Additional Tier 1 capital before regulatory adjustments	1,025	
Additional Tier 1 Capital: Regulatory Adjustments		
37 - Investments in own Additional Tier 1 instruments	-	
38 - Reciprocal cross-holdings in Additional Tier 1 instruments	-	

	2015 KD 000's	
	Component of capital disclosure template	cross reference from consolidated regulatory financial position
39 - Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above 10% threshold)	-	
40 - Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41 - National specific regulatory adjustments	-	
42 - Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43 - Total regulatory adjustments to Additional Tier 1 capital	-	
44 - Additional Tier 1 capital (AT1)	1,025	
45 - Tier 1 capital (T1 = CET1 + AT1)	526,200	
Tier 2 Capital: Instruments and Provisions		
46 - Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47 - Directly issued capital instruments subject to phase-out from Tier 2	-	
48 - Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49 - of which: instruments issued by subsidiaries subject to phase-out	-	
50 - General Provisions included in Tier 2 capital	36,376	b
51 - Tier 2 capital before regulatory adjustments	36,376	
Tier 2 Capital: Regulatory Adjustments		
52 - Investments in own Tier 2 instruments	-	
53 - Reciprocal cross-holdings in Tier 2 instruments	-	
54 - Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55 - Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56 - National specific regulatory adjustments	-	

	2015 KD 000's	
	Component of capital disclosure template	cross reference from consolidated regulatory financial position
57 - Total regulatory adjustments to Tier 2 capital	-	
58 - Tier 2 capital (T2)	36,376	
59 - Total capital (TC = T1 + T2)	562,576	
60 - Total risk weighted assets	3,059,514	
Capital Ratios and Buffers		
61 - Common Equity Tier 1 (as a percentage of risk weighted assets)	17.17%	
62 - Tier 1 (as a percentage of risk weighted assets)	17.20%	
63 - Total capital (as a percentage of risk weighted assets)	18.39%	
64 - Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9.00%	
65 - of which: capital conservation buffer requirement	2.50%	
66 - of which: bank specific countercyclical buffer requirement	-	
67 - of which: D-SIB buffer requirement	-	
68 - Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	10.67%	
National Minima		
69 - National Common Equity Tier 1 minimum ratio	9.00%	
70 - National Tier 1 minimum ratio	10.50%	
71 - National total capital minimum ratio excluding CCY and DSIB buffers	12.50%	
Amounts below the Thresholds for Deduction (before Risk Weighting)		
72 - Non-significant investments in the capital of financials institutions	51,229	e
73 - Significant investments in the common stock of financials institutions	54,761	d
74 - Mortgage servicing rights (net of related tax liability)	-	
75 - Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable Caps on the Inclusion of Provisions in Tier 2		
76 - Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	113,398	a + g
77 - Cap on inclusion of provisions in Tier 2 under standardized approach	36,376	b
78 - Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79 - Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	

2. Consolidated financial position under financial accounting and regulatory scope of consolidation

The basis of consolidation used to prepare consolidated financial position under International Financial Reporting Standards (IFRSs) is consistent with those used for regulatory purpose. The basis of consolidation is explained in note 2(b) of the consolidated financial statement. There is no difference between the consolidated financial position and the consolidated regulatory financial position

Consolidated regulatory financial position are as follows;

	2016 KD 000's		
	Consolidated regulatory financial position	**Component used in capital disclosure template**	**Cross reference to common disclosure template**
Assets			
Cash and short term funds	**556,929**		
Treasury and Central Bank bonds	**329,570**		
Due from banks and other financial institutions	**472,078**		
Loans and advances	**2,250,468**		
Of which: general provisions on funded exposure eligible for inclusion in Tier 2		**127,270**	**a**
Of which: Cap on inclusion of general provisions in Tier 2		**38,678**	**b**
Investment securities	**393,334**		
Of which: significant investment in the capital of financial institutions (amount above 10% threshold of bank's CET1 capital)		**36,325**	**c**
Of which: significant investment in the capital of financial institutions (amount below 10% threshold of bank's CET1 capital)		**57,724**	**d**
Of which: non significant investment in the capital of other financial institutions (amounts below the thresholds for deduction)		**52,347**	**e**
Premises and equipment	**29,439**		
Intangible assets	**3,506**	**3,506**	**f**
Other assets	**89,965**		
Total assets	**4,125,289**		
Liabilities and equity			
Liabilities			
Due to banks	**365,972**		
Due to other financial institutions	**802,885**		
Customer deposits	**2,221,632**		
Other borrowed funds	**30,630**		

	2016 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Other liabilities	100,323		
Of which: general provisions on unfunded exposure eligible for inclusion in Tier 2		6,161	g
Total liabilities	3,521,442		
Equity			
Equity attributable to shareholders of the Bank			
Share capital	149,666	149,666	h
Proposed bonus shares	14,967	14,967	i
Treasury shares	(3,740)	3,740	j
Reserves	254,666		
of which: share premium		66,791	k
of which: statutory reserve		115,977	l
of which: general reserve		17,927	m
of which: treasury share reserve		-	n
of which: property revaluation reserve		25,282	o
of which: property investment valuation reserve		28,689	p
Retained earnings	165,190	165,190	q
	580,749		
Proposed dividend	22,330		
	603,079		
Non-controlling interests	768	768	r
Total equity	603,847		
Total liabilities and equity	4,125,289		

	2015 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Assets			
Cash and short term funds	682,469		
Treasury and Central Bank bonds	332,575		
Due from banks and other financial institutions	265,681		
Loans and advances	2,297,466		
Of which: general provisions on funded exposure eligible for inclusion in Tier 2		108,609	a
Of which: Cap on inclusion of general provisions in Tier 2		36,376	b
Investment securities	338,888		
Of which: significant investment in the capital of financial institutions (amount above 10% threshold of bank's CET1 capital)		22,434	c
Of which: significant investment in the capital of financial institutions (amount below 10% threshold of bank's CET1 capital)		54,761	d
Of which: non significant investment in the capital of other financial institutions (amounts below the thresholds for deduction)		51,229	e
Premises and equipment	30,234		
Intangible assets	9,809	9,809	f
Other assets	80,229		
Total assets	4,037,351		
Liabilities and equity			
Liabilities			
Due to banks	166,904		
Due to other financial institutions	627,232		
Customer deposits	2,546,163		
Other liabilities	120,327		
Of which: general provisions on unfunded exposure eligible for inclusion in Tier 2		4,789	g
Total liabilities	3,460,626		

	2015 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Equity			
Equity attributable to shareholders of the Bank			
Share capital	141,194	141,194	h
Proposed bonus shares	8,472	8,472	i
Treasury shares	(2,822)	2,822	j
Reserves	258,497		
of which: share premium		66,791	k
of which: statutory reserve		115,977	l
of which: general reserve		17,927	m
of which: treasury share reserve		-	n
of which: property revaluation reserve		26,078	o
of which: property investment valuation reserve		31,724	p
Retained earnings	152,077	152,077	q
	557,418		
Proposed dividend	18,282		
	575,700		
Non-controlling interests	1,025	1,025	r
Total equity	576,725		
Total liabilities and equity	4,037,351		

3- Main features of capital instrument issued

1 - Issuer	**Commercial Bank of Kuwait**
2 - Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	**CBK**
3 - Governing law(s) of the instrument	**Kuwait Law**
Regulatory treatment	
4 - Type of Capital (CET1, AT1 or T2)	**Common equity tier 1**
5 - Eligible at solo/group/group & solo	**Group**
6 - Instrument type	**Ordinary shares**
7 - Amount recognized in regulatory capital (KD '000')	**KD 149,666**
8 - Par value of instrument	**100 fils**
9 - Accounting classification	**Shareholders' equity**
10 - Original date of issuance	**19 June 1960**
11 - Perpetual or dated	**Perpetual**

12 - Original maturity date	**No maturity**
13 - Issuer call subject to prior supervisory approval	**No**
14 - Optional call date, contingent call dates and redemption amount	**N/A**
15 - Subsequent call dates, if applicable	**N/A**
Coupons / dividends	
16 - Fixed or floating dividend/coupon	**Floating**
17 - Coupon rate and any related index	**N/A**
18 - Existence of a dividend stopper	**No**
19 - Fully discretionary, partially discretionary or mandatory	**Fully discretionary**
20 - Existence of step up or other incentive to redeem	**No**
21 - Noncumulative or cumulative	**Noncumulative**
22 - Convertible or non-convertible	**Nonconvertible**
23 - If convertible, conversion trigger (s)	**N/A**
24 - If convertible, fully or partially	**N/A**
25 - If convertible, conversion rate	**N/A**
26 - If convertible, mandatory or optional conversion	**N/A**
27 - If convertible, specify instrument type convertible into	**N/A**
28 - If convertible, specify issuer of instrument it converts into	**N/A**
29 - Write-down feature	**No**
30 - If write-down, write-down trigger(s)	**N/A**
31 - If write-down, full or partial	**N/A**
32 - If write-down, permanent or temporary	**N/A**
33 - If temporary write-down, description of write-up mechanism	**N/A**
34 - Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	**N/A**
35 - Non-compliant transitioned features	**No**
36 - If yes, specify non-compliant features	**N/A**

IV- Financial Leverage ratio

The financial leverage ratio is being provided in accordance with CBK circular No. 2/BS/342/2014 dated October 21, 2014. The application of this disclosure is intended to restrict the build up of financial leverage in the banking sector that leads to stress on the financial system and the economy in general. The financial leverage ratio is measure of Basel III tier 1 capital divided by total on and off balance sheet exposures of the Bank.

	2016 **KD 000's**	2015 KD 000's
1 - On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,125,289**	4,037,351
2 - (Asset amounts deducted in determining Tier 1 capital)	**(39,831)**	(32,243)
3 - Total on-balance sheet exposures (excluding derivatives and SFTs)	**4,085,458**	4,005,108
4 - Replacement / substitution cost associated with all derivative transactions (net of eligible cash variation margin)	**7,405**	1,115
5 - Add-on amounts for Potential Future Exposure (PFE) associated with all derivative transactions	**22,267**	6,887
6 - Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the bank's operative accounting framework	**-**	-
7 - (Deductions of receivables assets for cash variation margin provided in derivative transactions)	**-**	-
8 - (Exempted exposures to Central Counterparties (CCP)	**-**	-
9 - Adjusted effective notional amount of written credit derivatives	**-**	-
10 - Adjusted effective notional offsets and add-on deductions for written credit derivatives	**-**	-
11 - Total derivative exposures	**29,672**	8,002
12 - Gross SFT assets (with no recognition of netting)	**-**	-
13 - (Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-
14 - CCR exposures for SFT assets	**-**	-
15 - Exposure of the bank in its capacity as gent in the securities finance transaction (SFT)	**-**	-
16 - Total securities financing transaction exposures	**-**	-
17 - Off-balance sheet exposure (before application of credit conversion factors)	**1,516,137**	1,198,373
18 - (Adjustments for conversion to credit equivalent amounts)	**(813,880)**	(637,977)
19 - Total Off-balance sheet exposure	**702,257**	560,396
20 - Total exposures	**4,817,387**	4,573,506
21 - Tier 1 capital	**541,686**	526,200
22 - Leverage ratio (Tier 1 capital / total exposures)	**11.24%**	11.51%

V- Risk management

Risk Governance

The Bank believes in undertaking risks associated with its business only after proper identification, assessment, management and adequate mitigation of potential risk factors. The material risks to which the Bank is exposed to include credit risk, market risk, operational risk, liquidity risk, interest rate risk, reputational risk and strategic risk and legal risk.

The Risk Management Division of the Group is an independent and dedicated function reporting directly to Board Risk Management Committee and administratively to the Chairman. The division is responsible for assessing, monitoring and recommending strategies for control of credit, market, liquidity and operational interest rate, reputational, strategic and legal risks. Specific personnel are assigned within the Risk Management division for overseeing each of these risks. The absence of any direct or indirect reporting lines or arrangements with other internal divisions, and permanent membership in all of the Group's executive committees are amongst the factors which reflect the independent nature of Risk Management's operations and the central role it maintains within the Group.

The Risk Management Division is sub divided into different units which assess, monitor and control different risks. The Credit and Investment review unit is responsible for pre-fact assessment of corporate credit, international banking including assessment of credit lines for various countries and banks and investment proposals as per the credit policy as well as post fact analysis of corporate credit exposures. In addition, Control Unit, part of Credit & Investment review, verifies and monitors the activities and functions carried out by Credit Administration department on an ongoing daily basis to ensure that credit dispensation is in compliance with the related approvals as well as within internal and regulatory guidelines. In addition the Credit & Investment review unit is responsible for review and updating the Credit policy of the Group at periodic intervals so as to ensure that the policy is attuned to the operating environment and is in line with regulatory guidelines.

The operational risk unit is responsible for monitoring, measuring and reporting operational risks of the Group. Operational risk unit collects operational risk data through Risk & Control Self Assessment (RCSA), Key Risk Indicators (KRI), procedure reviews and reported incidents. A loss database is maintained and reported in the periodic risk management reports. Operational risk unit is also responsible for the group-wide insurance management and for coordinating the group-wide Business Continuity Plan and ensuring regular testing of the plan. The Risk Policies and Analytics unit is responsible for monitoring market, liquidity, interest rate, strategic, reputational and legal risks. It is also responsible for calculating the economic capital for various risks, conducting stress tests, reporting these to the Asset Liability Committee (ALCO), Board Risk Management Committee (BRMC), Board of Directors and the Central Bank, keeping the risk management policies up to date, conducting ALCO and Credit & Investment Committee (CIC) for investments items. The unit also prepares a monthly portfolio analysis report which is circulated to the ALCO members while a more detailed half-yearly portfolio analysis is put up to ALCO, BRMC and the Board of Directors.

"The IT Security unit is responsible for ensuring that all the Group's information and equipment are secured from internal and external threats whether deliberate or accidental. IT Security ensures the implementation of security tools and access control so that the information is protected against unauthorized access and disclosures and the IT assets are kept safe."

The risk management framework includes a hierarchy of committees involving the Board of Directors and the executive management for approval and reporting purposes. The Board of Directors through its committees has the overall authority for approval of strategies and policies. The Board Loan Committee (BLC) is the apex credit approving authority of the Group which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving the credit policy and amendments thereof. The Board of Directors is the apex authority of the Group for approving investments and other executive matters beyond the authority of the management. These include approval of groupwide strategies as well as specific policies pertaining to risk management. The Board Risk Management Committee (BRMC) assists the board in its oversight of the Bank's risk governance structure, risk management & risk assessment guidelines and policies, risk strategy and appetite and executive management's implementation of the risk strategies and policies.

The Credit & Investment Committee is the executive management decision making body which is empowered to consider all credit & investment related issues within certain limits. The Asset Liability Committee (ALCO) is responsible for the overall asset liability management framework which broadly covers balance sheet structure, maturity profile, interest rate risk, capital adequacy and foreign currency positions, review of related policies and approval of exceptions. The ALCO also performs the role of a risk committee whereby it has high level oversight over the risk management process. The Provisioning Committee is responsible for the overall evaluation and control of provisions taken by the Group and adherence to the related regulatory requirements.

In order to manage risks in a holistic manner and to measure risks on a consolidated basis, the Group has a formal enterprise wide risk management policy, which provides detailed guidelines for a sound framework for enterprise-wide risk management. The objectives of risk management are supported by various risk policies that are reviewed and updated regularly. The risk policies, in general, cater to detailed planning for various risks based on business strategies, past performance, future expectations, economic conditions and, internal as well as external regulations. The policies also require comprehensive analysis of a set of pre-determined parameters prior to introduction of new products or instruments. The policies have put in place internal limits (nominal as well as risk based) for continuous monitoring and ensuring that risks are maintained within the Group's risk appetite. Periodical reporting of risks to various authorities including the ALCO and the Board ensures that the executive management and the Board are continuously kept aware of positions thereby enabling informed decision-making.

The Group also conducts an enterprise wide stress test based on simulations in order to analyse the impact of extreme events on the profitability and capital adequacy.

The treatment of different types of risks by the Bank is elaborated hereunder:

a. Credit Risk

The Credit Policy and the Credit Risk Management Policy lay down the guiding principles for lending activities and the basis of measuring, monitoring and managing credit risks. The credit policy provides guidelines that establish the lending criteria and all credit decisions are made after giving due consideration to credit policy requirements. Continuous review and update of the credit policy is carried out to calibrate it with regulatory and business requirements.

The credit policy is supplemented by the credit risk management policy which establishes the infrastructure for credit risk management including tools for risk rating, portfolio analysis and independent reviews. Internal limits are also established for credit concentration and credit quality. Credit approvals are preceded by detailed due diligence on credit proposals including reviews that are independent from the risk taking units. The due diligence covers assessment of the quality of financial information, historical financial performance, future prospects, structure of facilities, their relevance to the business needs, management expertise, identifiable sources of repayment, available collateral, additional support available etc. In addition, comprehensive post approval reviews at the individual and portfolio levels are undertaken to effectively monitor / control the existing credit portfolio. The portfolio reports and post approval reviews are escalated to the management and the Board.

The Bank uses an internally developed obligor risk rating model. This utilises an advanced algorithm using both financial and non-financial parameters to generate an obligor risk rating. The model grades obligors with performing assets in a scale of 1 to 8 with 1 being the best risk. Ratings of 9 to 11 apply to non-performing assets. The internal risk rating is used to drive the credit approval process. The probability of default is calibrated to obligor rating. Non-financial considerations are industry specific and thus allow more fine-tuned risk assessment for different industries. Facility risk rating has also been introduced. Maximum counterparty/ group wise lending limits are applied to exposures according to regulatory norms for credit concentration.

Appropriate risk analysis ensures that the limits approved are commensurate with the risk profile of the borrower. Apart from individual lending limits, broader portfolio level exposure limits have been stipulated for perceived higher risk sectors and exposure to these segments are continuously monitored. Country limits, based on internal risk assessment and sovereign risk ratings of external credit rating agencies like Moodys and S&P, are in place to ensure adequate portfolio diversification in terms of sovereign ratings and geographical exposures. The Division also implemented a sector risk assessment model allowing more granularity in sector classification.

The risk policies also address the need for hedging under certain circumstances. The measurement of hedge effectiveness is governed by the market risk management policy which lays down guidelines for establishment of hedge, method of determining hedge effectiveness at inception and thereafter and other general rules for hedge transactions. The Bank also measures economic capital for credit risk including that for name, collateral, sector and geographic concentration under Pillar two of Basel III. The method of calculating capital for these concentration risks was changed during 2015 based on the recommendations of the external consultant who had validated the ICAAP methodologies.

Banks exposure to derivatives are by way of forex forwards with banks and bank customers. As the Credit Value Adjustment (CVA) for Counterparty Credit Risk (CCR) is insignificant separate economic capital is not considered necessary. Credit limits for counterparty credit exposures, which are banks, are set up based on the External Credit Assessment Institution (ECAI) ratings and the bank's credit policy and are reviewed periodically. The counterparties in derivative transactions are banks and limits are set up on an unadvised basis and hence the bank holds the control of preventing wrong way exposures. Obtaining and offering collateral are governed by the respective ISDA agreements entered into.

The bank does not undertake securitisation of its credit exposures.

b. Market Risk

"Market risk exposure for the Bank is evident in portfolios of equities and foreign exchange that are actively traded, as well as in other positions whose fair values are directly derived from market parameters. The Bank uses the standardised method for calculating capital for market risks. "

"Market risk limits are in place to control the equity and foreign exchange risks. Foreign exchange risks are monitored daily and controlled through currency-wise absolute limits as well as stop loss limits. Overnight regulatory limits that include overall absolute limits are strictly enforced."

The Bank also assesses the market risk through internally developed Value at Risk (VaR) measures. VaR is based on historical simulation over the relevant observation period and is computed as the maximum possible loss over the relevant holding period at the 99th percentile. Limits are in place for the maximum permitted VaR for the foreign exchange and equity positions. The VaR models are back tested annually to confirm their robustness. In addition, during the year the method for calculating economic capital for market risk was changed from the one using stressed VaR to one using stressed ES (Expected Shortfall) in line with changes brought about by the Basel committee.

Investments are classified under pre-defined asset categories and are subject to pre-approved limits for such categories. Further the Group's overall investment capacity and individual investments are restricted to stipulated limits and guidelines laid down by the Central Bank.

c. Liquidity Risk

The Bank manages liquidity risks that are evident in maturity mismatches and liability-side concentrations. Limits are in place for the control of liquidity risk and these include the maximum allowable cumulative mismatches and a limit for maximum amount allowed for lending. Internal alert limits are also laid down to ensure continued adherence to the regulatory limits. Liquidity risk management was further enhanced through new limits introduced during 2013 for liabilities from significant depositors and from sensitive products/instruments.

Limits were also introduced for mismatches in different time buckets to ensure that maturing assets and liabilities remain largely matched. A detailed liability side analysis is conducted periodically to discern rollover patterns, identify core deposits, behavioral trends in short-term funds and correlations with macro economic variables.

The Bank's liquidity risk management policy also requires that proper liquidity planning is periodically conducted and that stress tests are performed based on scenario analyses. A detailed contingency plan also forms part of the liquidity management framework. Economic capital for liquidity risk under pillar two of Basel III using internally developed methodology is also measured regularly.

The Basel Committee for Banking Supervision has introduced the Basel III regulations covering, among others, a global framework for liquidity risk management. The Bank, in 2012 proactively introduced internal limits for the new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both LCR and NSFR have become regulatory ratios now. These ratios are being measured and monitored regularly against regulatory limits and internal limits.

d. Interest Rate Risk

Interest rate risk is managed as per the guidelines laid down in the interest rate risk management policy. The majority of the assets and liabilities of the Bank mature and / or re-price within one year and hence there is limited exposure to interest rate risk. Interest rate risk is monitored with the help of an interest rate sensitivity monitor (IRSM) in which assets and liabilities are distributed in pre-defined maturity / re-pricing time bands. The Earnings at Risk (EaR) is computed by applying pre-defined rate shocks to the IRSM and this is compared against internal limits that define the Bank's appetite for this risk. As assets repricing beyond 1 year have been increasing and are close to 10% of assets. The sensitivity of the economic value of equity is also calculated under certain pre-defined circumstances. Economic capital under pillar two for interest rate risk is measured regularly using an internally developed methodology.

e. Operational Risk

Operational Risk management is focused on minimising the impact of risk events that may arise through inadequate processes, human error, system failures as well as external factors by using a range of assessment methods including Risk Control Self Assessments (RCSA) and a comprehensive review of group-wide procedures. An objective scorecard is used to assess the different operational risk areas based on pre-defined parameters and to grade them under certain categories. This gradation is used in the measurement of economical capital for operational risk and legal risk. Internally maintained loss data, consolidated principally from incident reporting channels, provides information on the frequency and impact of operational risk events. A group-wide business continuity framework is in place to tackle any unforeseen contingencies that aims to ensure that business continuity is achieved with minimal disruption to critical processes and systems. A KRI framework has also been put in place and KRIs defined for the different areas.

Insurance management which is integrated into this framework facilitates prudent transfer of risks. Insurance coverage provides partial mitigation for operational risk. The operational risk management policy lays down general guidelines for insurance management including factors to be considered in structuring insurance policies, credit risk of insurer, definition of policy limits and deductibles, policy reviews and handling of claims.

f. Other risks

Policies are in place for other risks including legal risk, strategic risk and reputational risk. These policies establish roles and responsibilities for various stakeholders in managing and controlling these risks. In addition, quantification methodologies have been introduced for measuring the economic capital for these risks.

VI- Credit exposures

The credit policy of the Group lays down the general lending standards as well as specific policies pertaining to different lending areas. Among others, the credit policy defines the lending criteria, approval process for various credit decisions, documentation requirements, margin requirements etc. The credit policy also includes a formal credit approval hierarchy designed on the basis of amount/tenor other features of the credit facility(ies) considered is in place for making suitable credit decisions. All credit decisions made at lower levels of the hierarchy are reviewed by the highest approval authority the BLC.

Loans and receivables are subject to credit risk provision for loan impairment if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the original effective interest rate and current interest rate for fixed and floating rate loans respectively. The amount of loss arising from impairment is taken to the consolidated statement of income.

Past due and impaired exposures are defined in accordance with the relevant CBK regulations. Specific and general provisions are computed in accordance with CBK regulations on provisioning as well as the applicable accounting standards. The CBK regulations pertaining to specific provisioning differentiate between facilities for retail, corporate and sovereign and specific rules and principles are accordingly applied for performing and non-performing facilities as follows:

	Irregularity period	
Category & provision required	**Consumer & installment loans**	**Others excluding sovereign loans**
Special mention – at discretion of management	Not exceeding 3 months	Upto 90 days
Substandard – 20% provision	3 months and above but less than 6 months	91-180 days
Doubtful – 50% provision	6 months and above but less than 12 months	181-365 days
Bad – 100% provision	12 months and more or clients under legal action	More than 365 days

In addition, minimum general provision has to be carried at 1% of the cash credit facilities and 0.5% for non-cash credit facilities, where no specific provision has been taken, in accordance with these regulations. Apart from the required general provision, portfolio provision, which represent additional general provision is made on certain portfolios. Such portfolios are identified based on certain criteria such as economic sector, group of special mention accounts, country risk etc. The rationale behind portfolio provision is to make the general provision more forward looking and also to take into account any possible loan-losses in future due to business cycle effects.

ECAIs used for capital adequacy computation are in accordance with CBK rules and regulations pertaining to the capital adequacy standard. The permissible ECAIs under the regulations are Moody's, Standard & Poor and Fitch. The public issue ratings are translated into specific risk weights in line with the mapping process defined in the same regulations. The mapping process involves application of stipulated risk weights for different public issue ratings as laid down in the regulations. Separate mapping notations are applicable for different categories of claims which are further classified, in case of claims on banks, into short-term and long-term exposures.

a. Gross credit exposures

	2016			2015		
	KD 000's			KD 000's		
	Total gross exposures	**Funded gross exposures**	**Unfunded gross exposures**	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1 - Claims on sovereigns	**409,440**	**409,440**	**-**	333,795	333,795	-
2 - Claims on international organisations	**-**	**-**	**-**	-	-	-
3 - Claims on PSEs	**97,769**	**97,769**	**-**	-	-	-
4 - Claims on MDBs	**3,850**	**3,850**	**-**	7,628	7,628	-
5 - Claims on banks	**1,266,276**	**959,958**	**306,318**	1,156,616	908,668	247,948
6 - Claims on corporates	**2,933,147**	**1,738,014**	**1,195,133**	2,853,754	1,921,525	932,229
7 - Claims on central counter parties	**-**	**-**	**-**	-	-	-
8 - Cash items	**232,130**	**232,130**	**-**	169,758	169,758	-
9 - Regulatory retail	**452,732**	**438,052**	**14,680**	460,285	442,137	18,148
10 - RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11 - Past due exposure	**6,051**	**6,045**	**6**	13,426	13,378	48
12 - Other assets	**323,470**	**323,470**	**-**	272,851	272,851	-
13 - Claims on securitised assets	**-**	**-**	**-**	-	-	-
	5,724,865	**4,208,728**	**1,516,137**	5,268,113	4,069,740	1,198,373

b. Average gross credit exposures

	2016			2015		
	KD 000's			KD 000's		
	Total gross exposures	**Funded gross exposures**	**Unfunded gross exposures**	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1 - Claims on sovereigns	**371,618**	**371,618**	**-**	364,371	364,371	-
2 - Claims on international organisations	**-**	**-**	**-**	-	-	-
3 - Claims on PSEs	**48,885**	**48,885**	**-**	-	-	-
4 - Claims on MDBs	**5,739**	**5,739**	**-**	7,482	7,482	-
5 - Claims on banks	**1,211,446**	**934,313**	**277,133**	1,238,344	1,007,842	230,502
6 - Claims on corporates	**2,893,451**	**1,829,770**	**1,063,681**	2,818,445	1,908,151	910,295
7 - Claims on central counter parties	**-**	**-**	**-**	-	-	-
8 - Cash items	**200,944**	**200,944**	**-**	146,404	146,404	-
9 - Regulatory retail	**456,509**	**440,095**	**16,414**	477,092	442,123	34,969
10 - RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11 - Past due exposure	**9,739**	**9,712**	**27**	37,978	37,881	97
12 - Other assets	**298,161**	**298,161**	**-**	264,249	264,249	-
13 - Claims on securitised assets	**-**	**-**	**-**	-	-	-
	5,496,492	**4,139,237**	**1,357,255**	5,354,365	4,178,503	1,175,863

c. Total credit exposures by geographic sector

	KD 000's					
As at 31 December 2016	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1 - Claims on sovereigns	**340,505**	**68,935**	-	-	-	**409,440**
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	**97,769**	-	-	-	-	**97,769**
4 - Claims on MDBs	-	-	-	-	**3,850**	**3,850**
5 - Claims on banks	**339,657**	**738,820**	**152,929**	**1,579**	**33,291**	**1,266,276**
6 - Claims on corporates	**2,653,909**	**181,612**	**46,385**	**51,241**	-	**2,933,147**
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	**33,071**	**62,627**	**126,708**	**8,757**	**967**	**232,130**
9 - Regulatory retail	**452,226**	**165**	**168**	-	**173**	**452,732**
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	**6,051**	-	-	-	-	**6,051**
12 - Other assets	**316,867**	**1,825**	**4,180**	**598**	-	**323,470**
13 - Claims on securitised assets	-	-	-	-	-	-
	4,240,055	**1,053,984**	**330,370**	**62,175**	**38,281**	**5,724,865**
Percentage of total credit exposure by geographical sector	**74.1%**	**18.4%**	**5.8%**	**1.0%**	**0.7%**	**100%**

	KD 000's					
As at 31 December 2015	Kuwait	Asia	Europe	USA	Others	Total
1 - Claims on sovereigns	333,795	-	-	-	-	333,795
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	-	7,628	7,628
5 - Claims on banks	271,603	791,300	74,841	2,310	16,562	1,156,616
6 - Claims on corporates	2,626,445	198,568	14,272	14,469	-	2,853,754
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	31,764	50,804	79,954	6,410	826	169,758
9 - Regulatory retail	459,779	126	248	-	132	460,285
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	13,426	-	-	-	-	13,426
12 - Other assets	264,680	1,372	5,379	1,420	-	272,851
13 - Claims on securitised assets	-	-	-	-	-	-
	4,001,492	1,042,170	174,694	24,609	25,148	5,268,113
Percentage of total credit exposure by geographical sector	75.9%	19.8%	3.3%	0.5%	0.5%	100%

d. Funded credit exposures by geographic sector

	KD 000's					
As at 31 December 2016	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1 - Claims on sovereigns	**340,505**	**68,935**	**-**	**-**	**-**	**409,440**
2 - Claims on international organisations	**-**	**-**	**-**	**-**	**-**	**-**
3 - Claims on PSEs	**97,769**	**-**	**-**	**-**	**-**	**97,769**
4 - Claims on MDBs	**-**	**-**	**-**	**-**	**3,850**	**3,850**
5 - Claims on banks	**328,262**	**520,541**	**82,578**	**1,444**	**27,133**	**959,958**
6 - Claims on corporates	**1,656,579**	**75,251**	**6,184**	**-**	**-**	**1,738,014**
7 - Claims on central counter parties	**-**	**-**	**-**	**-**	**-**	**-**
8 - Cash items	**33,071**	**62,627**	**126,708**	**8,757**	**967**	**232,130**
9 - Regulatory retail	**437,930**	**68**	**-**	**-**	**54**	**438,052**
10 - RHLs eligible for 35% RW	**-**	**-**	**-**	**-**	**-**	**-**
11 - Past due exposure	**6,045**	**-**	**-**	**-**	**-**	**6,045**
12 - Other assets	**316,867**	**1,825**	**4,180**	**598**	**-**	**323,470**
13 - Claims on securitised assets	**-**	**-**	**-**	**-**	**-**	**-**
	3,217,028	**729,247**	**219,650**	**10,799**	**32,004**	**4,208,728**
Percentage of total credit exposure by geographical sector	**76.4%**	**17.3%**	**5.2%**	**0.3%**	**0.8%**	**100.0%**

	KD 000's					
As at 31 December 2015	Kuwait	Asia	Europe	USA	Others	Total
1 - Claims on sovereigns	333,795	-	-	-	-	333,795
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	-	7,628	7,628
5 - Claims on banks	262,017	599,701	34,961	-	11,989	908,668
6 - Claims on corporates	1,800,387	117,473	3,665	-	-	1,921,525
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	31,764	50,804	79,954	6,410	826	169,758
9 - Regulatory retail	442,095	29	-	-	13	442,137
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	13,378	-	-	-	-	13,378
12 - Other assets	264,680	1,372	5,379	1,420	-	272,851
13 - Claims on securitised assets	-	-	-	-	-	-
	3,148,116	769,379	123,959	7,830	20,456	4,069,740
Percentage of total credit exposure by geographical sector	77.4%	18.9%	3.0%	0.2%	0.5%	100.0%

e. Unfunded credit exposures by geographic sector

	KD 000's					
As at 31 December 2016	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1 - Claims on sovereigns	-	-	-	-	-	-
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	-	-	-
5 - Claims on banks	**11,395**	**218,279**	**70,351**	**135**	**6,158**	**306,318**
6 - Claims on corporates	**997,330**	**106,361**	**40,201**	**51,241**	-	**1,195,133**
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	-	-	-	-	-	-
9 - Regulatory retail	**14,296**	**97**	**168**	-	**119**	**14,680**
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	**6**	-	-	-	-	**6**
12 - Other assets	-	-	-	-	-	-
13 - Claims on securitised assets	-	-	-	-	-	-
	1,023,027	**324,737**	**110,720**	**51,376**	**6,277**	**1,516,137**
Percentage of total credit exposure by geographical sector	**67.5%**	**21.4%**	**7.3%**	**3.4%**	**0.4%**	**100.0%**

	KD 000's					
As at 31 December 2015	Kuwait	Asia	Europe	USA	Others	Total
1 - Claims on sovereigns	-	-	-	-	-	-
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	-	-	-
5 - Claims on banks	9,586	191,599	39,880	2,310	4,573	247,948
6 - Claims on corporates	826,058	81,095	10,607	14,469	-	932,229
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	-	-	-	-	-	-
9 - Regulatory retail	17,684	97	248	-	119	18,148
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	48	-	-	-	-	48
12 - Other assets	-	-	-	-	-	-
13 - Claims on securitised assets	-	-	-	-	-	-
	853,376	272,791	50,735	16,779	4,692	1,198,373
Percentage of total credit exposure by geographical sector	71.2%	22.8%	4.2%	1.4%	0.4%	100.0%

f. Total credit exposures by residual maturity

As at 31 December 2016	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
	KD 000's					
1 - Claims on sovereigns	34,549	106,043	83,339	42,660	142,849	409,440
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	172	-	3,575	3,300	90,722	97,769
4 - Claims on MDBs	-	-	-	3,850	-	3,850
5 - Claims on banks	444,890	334,033	95,291	41,584	350,478	1,266,276
6 - Claims on corporates	228,132	578,116	404,168	467,423	1,255,308	2,933,147
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	232,130	-	-	-	-	232,130
9 - Regulatory retail	14,577	4,927	4,284	7,345	421,599	452,732
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	6,051	-	-	-	-	6,051
12 - Other assets	114,287	1,684	438	4,217	202,844	323,470
13 - Claims on securitised assets	-	-	-	-	-	-
	1,074,788	1,024,803	591,095	570,379	2,463,800	5,724,865
Percentage of total credit exposures by residual maturity	18.8%	17.9%	10.3%	10.0%	43.0%	100.0%

As at 31 December 2015	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
	KD 000's					
1 - Claims on sovereigns	49,469	128,252	80,388	63,815	11,871	333,795
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	32	7,596	7,628
5 - Claims on banks	584,765	38,669	99,023	58,424	375,735	1,156,616
6 - Claims on corporates	20,879	-	-	972,211	1,860,664	2,853,754
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	169,065	693	-	-	-	169,758
9 - Regulatory retail	10,691	-	-	9,225	440,369	460,285
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	13,426	-	-	-	-	13,426
12 - Other assets	64,928	117	955	11,999	194,852	272,851
13 - Claims on securitised assets	-	-	-	-	-	-
	913,223	167,731	180,366	1,115,706	2,891,087	5,268,113
Percentage of total credit exposures by residual maturity	17.3%	3.2%	3.4%	21.2%	54.9%	100.0%

g. Funded credit exposures by residual maturity

	KD 000's					
As at 31 December 2016	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
1 - Claims on sovereigns	**34,549**	**106,043**	**83,339**	**42,660**	**142,849**	**409,440**
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	**172**	-	**3,575**	**3,300**	**90,722**	**97,769**
4 - Claims on MDBs	-	-	-	**3,850**	-	**3,850**
5 - Claims on banks	**414,597**	**277,422**	**69,847**	-	**198,092**	**959,958**
6 - Claims on corporates	**142,323**	**390,629**	**252,286**	**312,127**	**640,649**	**1,738,014**
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	**232,130**	-	-	-	-	**232,130**
9 - Regulatory retail	**13,789**	**2,919**	**1,510**	**3,334**	**416,500**	**438,052**
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	**6,045**	-	-	-	-	**6,045**
12 - Other assets	**114,287**	**1,684**	**438**	**4,217**	**202,844**	**323,470**
13 - Claims on securitised assets	-	-	-	-	-	-
	957,892	**778,697**	**410,995**	**369,488**	**1,691,656**	**4,208,728**
Percentage of total credit exposures by residual maturity	**22.8%**	**18.5%**	**9.8%**	**8.8%**	**40.1%**	**100.0%**

	KD 000's					
As at 31 December 2015	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1 - Claims on sovereigns	49,469	128,252	80,388	63,815	11,871	333,795
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	32	7,596	7,628
5 - Claims on banks	584,765	38,669	99,023	45,435	140,776	908,668
6 - Claims on corporates	20,119	-	-	824,224	1,077,182	1,921,525
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	169,065	693	-	-	-	169,758
9 - Regulatory retail	10,688	-	-	5,815	425,634	442,137
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	13,378	-	-	-	-	13,378
12 - Other assets	64,928	117	955	11,999	194,852	272,851
13 - Claims on securitised assets	-	-	-	-	-	-
	912,412	167,731	180,366	951,320	1,857,911	4,069,740
Percentage of total credit exposures by residual maturity	22.4%	4.1%	4.4%	23.4%	45.7%	100.0%

h. Unfunded credit exposures by residual maturity

As at 31 December 2016	KD 000's Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1 - Claims on sovereigns	-	-	-	-	-	-
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	-	-	-
5 - Claims on banks	**30,293**	**56,611**	**25,444**	**41,584**	**152,386**	**306,318**
6 - Claims on corporates	**85,809**	**187,487**	**151,882**	**155,296**	**614,659**	**1,195,133**
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	-	-	-	-	-	-
9 - Regulatory retail	**788**	**2,008**	**2,774**	**4,011**	**5,099**	**14,680**
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	**6**	-	-	-	-	**6**
12 - Other assets	-	-	-	-	-	
13 - Claims on securitised assets	-	-	-	-	-	-
	116,896	**246,106**	**180,100**	**200,891**	**772,144**	**1,516,137**
Percentage of total credit exposures by residual maturity	**7.7%**	**16.2%**	**11.9%**	**13.3%**	**50.9%**	**100.0%**

As at 31 December 2015	KD 000's Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1 - Claims on sovereigns	-	-	-	-	-	-
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	-	-	-
5 - Claims on banks	-	-	-	12,989	234,959	247,948
6 - Claims on corporates	760	-	-	147,987	783,482	932,229
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	-	-	-	-	-	-
9 - Regulatory retail	3	-	-	3,410	14,735	18,148
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	48	-	-	-	-	48
12 - Other assets	-	-	-	-	-	
13 - Claims on securitised assets	-	-	-	-	-	-
	811	-	-	164,386	1,033,176	1,198,373
Percentage of total credit exposures by residual maturity	0.1%	0.0%	0.0%	13.7%	86.2%	100.0%

i. Impaired loans and provisions by standard portfolio

	2016			2015		
	KD 000's			KD 000's		
	Gross Debt	Specific Provision	Net Debt	Gross Debt	Specific Provision	Net Debt
1 - Claims on sovereigns	-	-	-	-	-	-
2 - Claims on international organisations	-	-	-	-	-	-
3 - Claims on PSEs	-	-	-	-	-	-
4 - Claims on MDBs	-	-	-	-	-	-
5 - Claims on banks	-	-	-	-	-	-
6 - Claims on corporates	1,342	(593)	749	9,509	(2,065)	7,444
7 - Claims on central counter parties	-	-	-	-	-	-
8 - Cash items	-	-	-	-	-	-
9 - Regulatory retail	10,667	(5,544)	5,123	12,368	(6,684)	5,684
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	-	-	-	-	-	-
12 - Other assets	-	-	-	-	-	-
13 - Claims on securitised assets	-	-	-	-	-	-
	12,009	(6,137)	5,872	21,877	(8,749)	13,128

j. Analysis of loans past due but not impaired by standard portfolio

	2016		2015	
	KD 000's		KD 000's	
	Past due but not impaired		Past due but not impaired	
	0 - 60 days	61 - 90 days	0 - 60 days	61 - 90 days
1 - Claims on sovereigns	-	-	-	-
2 - Claims on international organisations	-	-	-	-
3 - Claims on PSEs	-	-	-	-
4 - Claims on MDBs	-	-	-	-
5 - Claims on banks	-	-	-	-
6 - Claims on corporates	465,482	9,130	347,488	52
7 - Claims on central counter parties	-	-	-	-
8 - Cash items	-	-	-	-
9 - Regulatory retail	41,751	-	42,724	-
10 - RHLs eligible for 35% RW	-	-	-	-
11 - Past due exposure	-	-	-	-
12 - Other assets	-	-	-	-
13 - Claims on securitised assets	-	-	-	-
	507,233	9,130	390,212	52

k. General provision and provisions charged to statement of income by standard portfolio

	2016		2015	
	KD 000's		KD 000's	
	General Provision	Statement of Income	General Provision	Statement of Income
1 - Claims on sovereigns	-	-	-	-
2 - Claims on international organisations	-	-	-	-
3 - Claims on PSEs	-	-	-	-
4 - Claims on MDBs	-	-	-	-
5 - Claims on banks	425	88	337	303
6 - Claims on corporates	117,737	63,726	100,009	44,240
7 - Claims on central counter parties	-	-	-	-
8 - Cash items	-	-	-	-
9 - Regulatory retail	5,239	3,383	5,109	4,110
10 - RHLs eligible for 35% RW	-	-	-	-
11 - Past due exposure	-	-	-	-
12 - Other assets	3,869	(18,570)	3,153	2,351
13 - Claims on securitised assets	-	-	-	-
	127,270	48,627	108,608	51,004

l. Impaired loans and provisions by geographic sector

	KD 000's			
			Past due but not impaired	
As at 31 December 2016	Gross Debt	Specific Provision	0 - 60 days	61 - 90 days
Kuwait	12,009	(6,137)	507,233	9,130
Asia	-	-	-	-
Europe	-	-	-	-
USA	-	-	-	-
Others	-	-	-	-
	12,009	(6,137)	507,233	9,130

As at 31 December 2015	KD 000's Gross Debt	Specific Provision	Past due but not impaired 0 - 60 days	61 - 90 days
Kuwait	21,877	(8,749)	390,212	52
Asia	-	-	-	-
Europe	-	-	-	-
USA	-	-	-	-
Others	-	-	-	-
	21,877	(8,749)	390,212	52

m. Movement in provisions

	2016			2015		
	KD 000's			KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**16,729**	**108,609**	**125,338**	14,074	134,557	148,631
Write - offs	**(85,401)**	**-**	**(85,401)**	(96,958)	-	(96,958)
Exchange differences	**(1)**	**(5)**	**(6)**	-	43	43
Recoveries	**33,898**	**-**	**33,898**	25,953	-	25,953
Ceded to Central Bank	**(11)**	**-**	**(11)**	(1)	-	(1)
Statement of income	**49,142**	**18,666**	**67,808**	73,661	(25,991)	47,670
	14,356	**127,270**	**141,626**	16,729	108,609	125,338

n. Credit exposures after CRM and CCF

	2016		2015	
	KD 000's		KD 000's	
	Credit Exposures after CRM		Credit Exposures after CRM	
	Rated Exposures	**Unrated Exposures**	Rated Exposures	Unrated Exposures
1 - Claims on sovereigns	**-**	**409,634**	-	333,903
2 - Claims on international organisations	**-**	**-**	-	-
3 - Claims on PSEs	**-**	**97,769**	-	-
4 - Claims on MDBs	**3,850**	**-**	7,628	-
5 - Claims on banks	**802,493**	**341,636**	771,134	270,229
6 - Claims on corporates	**37,582**	**1,827,000**	39,672	1,772,487
7 - Claims on central counter parties	**-**	**-**	-	-
8 - Cash items	**-**	**232,130**	-	169,758
9 - Regulatory retail	**-**	**439,608**	-	445,542
10 - RHLs eligible for 35% RW	**-**	**-**	-	-
11 - Past due exposure	**-**	**5,554**	-	9,483
12 - Other assets	**-**	**308,411**	-	247,822
13 - Claims on securitised assets	**-**	**-**	-	-
	843,925	**3,661,742**	818,434	3,249,224

VII- Credit risk mitigation

No netting, whether on-balance sheet or off-balance sheet, has been used for the capital adequacy computation process.

The credit policy of the Group lays down guidelines for collateral valuation and management which includes, minimum coverage requirement for different categories of collateral, remargining, frequency and basis of revaluation, documentation, insurance, custodial requirements etc. According to the credit policy, the frequency of revaluing the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also in cases where the collateral is in a different currency to the exposure. This process is handled by a department independent of the business divisions to ensure objectivity. An independent annual analysis is conducted by Risk Management Division to categorize the shares acceptable as collateral into different grades for the purpose of stipulating differential margin requirements.

Acceptable collateral includes cash, bank guarantees, shares, real estate etc. subject to specific conditions on eligibility, margin requirements etc. laid down in the credit policy. The credit risk mitigation used for capital adequacy computation include collateral in the form of cash and shares as well as guarantees in accordance with the CBK's rules and regulations concerning capital adequacy standard. For the purpose of capital adequacy computation, the main type for guarantor counterparty is banks with acceptable ratings and local quoted shares form the major type of collateral forming the bulk of the credit risk mitigation used for capital adequacy.

The collateralised credit exposure with eligible collateral by standard portfolio are as follows:

	KD 000's			
As at 31 December 2016	**Total gross exposures**	**Collateralised Exposures**	**Financial Collaterals**	**Bank Guarantees**
1 - Claims on sovereigns	**409,440**	-	-	-
2 - Claims on international organisations	-	-	-	-
3 - Claims on PSEs	**97,769**	-	-	-
4 - Claims on MDBs	**3,850**	-	-	-
5 - Claims on banks	**1,266,276**	-	-	-
6 - Claims on corporates	**2,933,147**	**723,487**	**415,981**	-
7 - Claims on central counter parties	-	-	-	-
8 - Cash items	**232,130**	-	-	-
9 - Regulatory retail	**452,732**	**4,301**	**5,501**	-
10 - RHLs eligible for 35% RW	-	-	-	-
11 - Past due exposure	**6,051**	**487**	**494**	-
12 - Other assets	**323,470**	**30,438**	**15,059**	-
13 - Claims on securitised assets	-	-	-	-
	5,724,865	**758,713**	**437,035**	-

	KD 000's			
As at 31 December 2015	Total gross exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1 - Claims on sovereigns	333,795	-	-	-
2 - Claims on international organisations	-	-	-	-
3 - Claims on PSEs	-	-	-	-
4 - Claims on MDBs	7,628	-	-	-
5 - Claims on banks	1,156,616	-	-	-
6 - Claims on corporates	2,853,754	819,497	537,511	-
7 - Claims on central counter parties	-	-	-	-
8 - Cash items	169,758	-	-	-
9 - Regulatory retail	460,285	4,067	5,299	-
10 - RHLs eligible for 35% RW	-	-	-	-
11 - Past due exposure	13,426	7,037	3,918	-
12 - Other assets	272,851	33,117	25,029	-
13 - Claims on securitised assets	-	-	-	-
	5,268,113	863,718	571,757	-

VIII- Capital requirement for market risk

The present market risk exposure comprises of foreign exchange and equity trading portfolio. The capital charge for the entire market risk exposure is computed under the standardized approach.

The capital requirement for market risk exposure is as follows:

	2016	2015
	KD 000's	KD 000's
1 - Interest rate position risk	**-**	-
2 - Equity position risk	**-**	-
3 - Foreign exchange risk	**388**	191
4 - Commodities risk	**-**	-
5 - Options	**-**	-
	388	191

IX- Operational risk

The Group uses the standardised approach for computation of operational risk capital charge that amounted to KD 30,089 thousand (2015: KD 28,003 thousand) which primarily involves segregating the Group's activities into eight business lines and applying the relevant beta factors to the average gross income for each business line as defined in the CBK's rules and regulations pertaining to capital adequacy standard. However, capital for operational risk is separately calculated for pillar two purposes using a variation of the standardised approach based on the results of the operational risk scorecard.

X- Equity position in the banking book

The majority of equity holdings are taken with the expectation of capital gains and dividend income. Strategic equity holdings are taken in financial institutions where the Group expects to develop a business relationship or ultimately gain control of that entity.

Equity investment securities in the Group are classified as "available for sale". These are carried at fair value with any resultant gain or loss arising from changes in fair value taken to the investment valuation reserve through the consolidated statement of comprehensive income in equity. When the "available for sale" investment is disposed off or impaired, any prior fair value adjustments earlier reported in equity are transferred to the consolidated statement of income.

Fair values are determined by reference to quoted market prices. The fair value for investments in mutual funds, unit trusts or similar investment vehicles are based on last published bid price. The fair value for unquoted investments are determined by reference to the market value of a similar investment, on the expected discounted cash flows, other appropriate valuation models or brokers' quotes. The Group treats "available for sale" equity holdings as impaired when there has been "significant" or "prolonged" decline in the fair value below its cost.

The quantitative information related to equity investment securities in the Group are as follows:

	2016	2015
	KD 000's	KD 000's
1- Value of investment disclosed in the balance sheet	**194,137**	177,926
2- Type and nature of investment securities Available for sale		
Equity securities -quoted	**161,792**	143,842
Equity securities -unquoted	**32,345**	34,084
	194,137	177,926
3- Cumulative realised gain (net) arising from sales of investment securities	**733**	2,180
4- Total unrealised (loss) gain (net) recognised in the balance sheet but not through profit and loss account	**(2,035)**	6,212
5- Capital requirements		
Available for sale	**36,494**	32,456

XI- Interest rate risk in the banking book

Interest rate risk management is governed by the interest rate risk management policy of the Group. The policy lays down guidelines for interest rate risk planning, reporting and hedging. Various interest rate risk limits are also put in place. The policy also clearly defines the responsibilities of various committees and divisions in the context of interest rate risk management. Ongoing monitoring of interest rate risk within the Group involves monthly generation of the interest rate sensitivity monitor (IRSM) which classifies all assets and liabilities into pre-defined time-bands. The classification of the assets and liabilities is based on guidelines laid down in the policy which reflect the maturity / repricing characteristics of the underlying exposure.

Over a period of one year, the impact on net interest income based on repricing gaps is:

	2016		2015	
	KD 000's		KD 000's	
	Impact on earnings		Impact on earnings	
	±@1%	**±@2%**	±@1%	±@2%
Kuwaiti dinars	**10,564**	**21,128**	9,060	18,120
US dollars	**844**	**1,688**	192	384
Other currencies	**696**	**1,392**	532	1,064
	± 12,104	**± 24,208**	± 9,784	± 19,568

XII- Remuneration

Board nomination and remuneration committee (BNRC) comprise of the following members

Mr. Abdulrazzak A. Alkandari
Mr. Bader Sulaiman Al Ahmad
Dr. Arshid Al Houri

The BNRC is comprised of at least three non-executive Board members including the head of the committee as the committee Chairman. The Secretary to the Board will act as its secretary at the BNRC meetings.

BNRC to ensure the Bank is in compliance with the Central Bank Kuwait's instructions and the applicable laws and regulations, as well as to reflect the Bank's objectives while maintaining the integrity of the Bank's operations and financial position.

Below are the main functions and duties assumed by the BNRC in relation to remuneration:

1- Review the Bank's remunerations policy before presenting the same to the Board of Directors, oversee application thereof and propose amendments thereto if necessary, taking into account the Bank's financial subsidiaries when preparing this policy.
2- Conduct independent review of the remuneration policy or upon the Board of Directors' request .This review can be conducted by Internal Audit Department (IAD) or an external consultant.
3- Regularly evaluate the sufficiency and effectiveness of the remuneration policy in serving the objectives for which it was set.
4- Ensure that the Bank's Executive Management has set accurate systems and procedures and effective supervision mechanism in order to ensure compliance with the Central Bank of Kuwait's instructions and the Board of Directors' decisions on remunerations.
5- Recommend to the Board of Directors the level and components of remuneration of the Managing Director (MD), the Chief Executive Officer (CEO) and his deputies & assistants and the remuneration of any other job as may be determined by the Board of Directors.
6- Verify that the remuneration policy and the procedures adopted by the Bank and its financial subsidiaries with respect to remunerations are in line with Corporate Governance rules and systems as outlined in the Central Bank of Kuwait's instructions.

During 2016, no external consultant has been sought.

The remuneration policy was approved by the Board of Directors on 29th June 2016. The policy should be reviewed and updated every 3 years or as required by the regulators or Board of Directors whichever is earlier.

Below are the main elements of the remuneration policy of the Bank

1- The Bank adopts remuneration policy that will cover all the employees of the Bank by applying a system that will classify, appraise and describe all the jobs that should be executed by the employees who have the expertise and skills that commensurate with the said system.
2- The policy will take into account the legal and regulatory requirements in addition to the rules and laws enforceable in Kuwait as well as the level and range of salaries and remuneration in the banking and financial sector when determining the level of salaries and remuneration in the Bank.
3- Remunerations are divided into fixed remunerations which include salary, fixed package & pay and variable remunerations which are based on staff performance appraisal. However, based on the applicable Corporate Governance rules, variable remunerations encompass remunerations linked to staff performance over a term of 3 years which is also associated with the risks involved in the duties assumed by the staff member, thus such variable remuneration can be clawed back.
4- All staff is subject to annual appraisal where variable remunerations, if any will be determined by this appraisal.
5- As for promotions and apart from the annual appraisal of staff members, promotions would take into account the Bank's need to get staff members promoted to higher grades in addition to the extent of staff preparedness to develop his skills to cope with the responsibilities of the new higher position.
6- Heads of compliance, internal audit and risk management departments will be appraised by the Chairman where the CEO will not have any role in such appraisal. Thus, the promotions and remunerations that will be decided and determined by the senior management at the Bank will count on this appraisal.

   According to the approved organizational chart of the Bank's compliance department is reporting directly to the Board Corporate Governance Committee and administratively to the Chairman. On the other side risk management department is reporting directly to Board Risk Committee and administratively to the Chairman. Based on the above the executive management has nothing to do with the evaluation and thus the promotion associated with compliance or risk management departments.

According to the approved organizational chart of the Bank's compliance department is reporting directly to the Board Corporate Governance Committee and administratively to the Chairman. On the other side risk management department is reporting directly to Board Risk Committee and administratively to the Chairman. Based on the above the executive management has nothing to do with the evaluation and thus the promotion associated with compliance or risk management departments.

The remuneration practices are managed within the Bank's risk appetite. The Bank takes into account all aspects and components of financial remuneration so as to reinforce the Bank's effective risk management.

The Bank's remuneration policy is linked to the Bank's performance on the long term as well as short term taking into account amending the financial remunerations granted to staff to match risks on the long term and short term.

It is the policy of the Bank that all staff is appraised at least once a year for their individual performance and is reviewed for salary increases based on their assessment. The appraisal process is used to evaluate staff contribution to the Bank and to give them an insight into their performance related strengths and weaknesses and areas to improve.

The performance rating metrics are linked to the staff performance and the level of the salary scale of his individual grade. These guidelines are applied equally through all the levels of staff.

The consideration to grant merit increases occurs in conjunction with the performance appraisal which is linked to pre-defined rating metrics and salary increase guidelines which are applied uniformly bank-wide.

The Bank have not had to implement measures such as to adjust remuneration due to weak performance metrics to date, but should there be such an event when the bank performance metrics are weak, the BNRC will adopt appropriate measures to adjust remuneration policies at that point of time in the best interests of the Bank and its employees.

A claw back policy has been put in place which authorizes the Board of Director to claw back remunerations in partial recoveries during the vesting period of three financial years.

The structure of remuneration for all Bank's employees consists of the following:

- Fixed Remuneration
- Variable Remuneration

Fixed remuneration is made up of basic salary and allowances and related benefits (housing, transportation, education, health insurance, airfare, gratuity, contractual bonus etc).

Variable remuneration – At present, there is no defined variable remuneration.

BNRC met 8 times during 2016. As to remuneration paid to its members please be advised that remuneration paid to those members for 2016 cover their memberships in other Board Committees and any other tasks assigned to them by the board. Total remuneration paid to members of Board of Directors is disclosed in Bank's annual report on aggregate level according to Central Bank Kuwiat's instructions related to Corporate Governance KD 530 thousand (2015: KD 529 thousand).

The annual bonus paid to employees at the end of 2015 is as follows:

	2016	2015
	KD 000's	KD 000's
Amount paid	**1,564**	1,565
No. of employees	**1,306**	1,085

There is no sign on awards made during the year.

During the year, Bank has paid in respect of end of service benefit are as follows:

	No. of Employees	**2016**	No. of Employees	2015
		KD 000's		KD 000's
Amount paid to:				
Kuwaiti employees	**6**	**42**	7	73
Non Kuwaiti employees	**79**	**531**	33	388

The table below shows the value of remuneration paid to senior management and other material risk taker:

	2016		2015	
	KD 000's		KD 000's	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Fixed				
Cash-based	**9,070**	**-**	8,021	-
Shares and share-linked instruments	**-**	**-**	-	-
Other	**-**	**-**	-	-
Total fixed	**9,070**	**-**	8,021	-

There is no variable remuneration was paid during the year.

The table below shows the summary of remuneration paid to senior management and other material risk taker:

	2016		2015	
	No. of Employees	**KD 000's**	No. of Employees	KD 000's
Senior Management	**13**	**1,164**	12	989
Material Risk Takers	**330**	**6,985**	333	6,250
Financial & Control Functions	**36**	**921**	35	782
		9,070		8,021

Branch Network	Tel	Fax	شبكة الفروع
Mubarak Al-Kabir	22990001	22464870	مبارك الكبير
Abdulla Mubarak Street	22990005	22404826	شارع عبدالله المبارك
Airport (Arrival)	22990004	24741951	المطار (الوصول)
Airport (Cargo)	22990235	24712088	المطار (الجمارك)
Al Rai	22990045	22990825	الري
Ali Sabah Al Salem	22990042	23280662	علي صباح السالم
Al Naeem	22990056	24571797	النعيم
Al Rabia	22990057	22990547	الرابية
Al Messila	22990065	22990815	المسيلة
Andalus	22990036	24889129	الأندلس
Ardhiya	22990019	24887316	العارضية
Dahiyat Abdulla Mubarak	22990059	22990193	ضاحية عبدالله المبارك
Dhaher	22990041	23830726	الظهر
East Ahmadi	22990014	23980434	شرق الأحمدي
Fahaheel	22990066	23929683	الفحيحيل
Fahaheel - Ajyal Complex	22990011	23913905	الفحيحيل – مجمع أجيال
Faiha	22990067	22531740	الفيحاء
Farwaniya Co-op	22990027	24744810	الفروانية (الجمعية)
Hadiya	22990064	22990232	هدية
Hawalli	22990016	22616451	حولي
Hawalli (Beirut Str)	22990020	22621904	حولي – شارع بيروت
Jabriya	22990035	25334632	الجابرية
Jahra	22990007	24551580	الجهراء
Jleeb Al Shyoukh	22990063	22990153	جليب الشيوخ
Khaitan	22990008	24745584	خيطان
Khaldiya	22990015	24810549	الخالدية
Labour Unit	22990324	24335895	وحدة حساب العامل
Mansouriya	22990044	22573880	المنصورية
Ministries Complex	22990031	22474151	مجمع الوزارات
Omariya	22990010	24711148	العمرية
Qurain	22990024	25440035	القرين
Ras Salmiya	22990033	25719570	رأس السالمية
Regaee	22990050	24893885	الرقعي
Rumaithiya	22990018	22990964	الرميثية
Sabah Al Salem	22990054	22990354	صباح السالم
Sabahiya	22990012	23617302	الصباحية
Salhiya	22990030	22463492	الصالحية
Salmiya	22990023	25727053	السالمية
Salwa	22990051	25610780	سلوى
Sharq	22990026	22454869	شرق
Shuwaikh	22990021	24837952	الشويخ
Six Ring Road	22990034	24345382	الدائري السادس
South Surra	22990055	22990355	جنوب السرة
Sulaibikhat	22990013	24877318	الصليبيخات
Vegetable Market	22990028	24817859	سوق الخضار
Yarmouk	22990032	25352182	اليرموك

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