Al-Tijari التجاري

Annual Report

Commercial Bank of Kuwait

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

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince of The State of Kuwait

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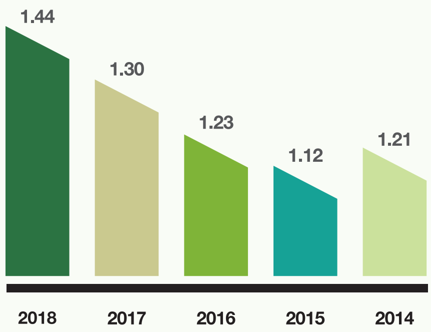
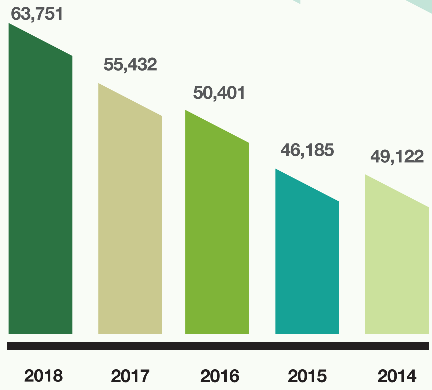
Financial Trends



Return on Average Assets %



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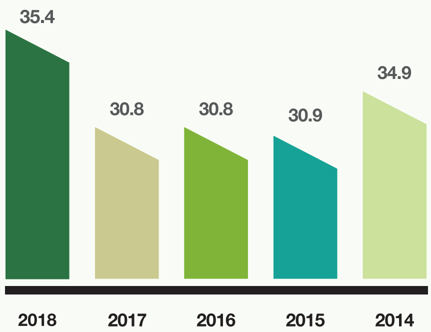
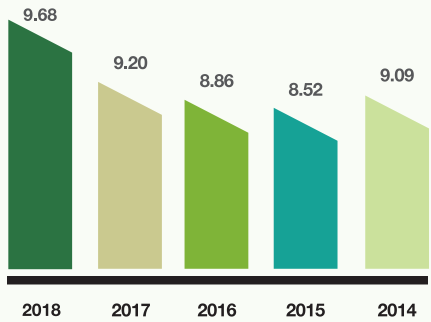
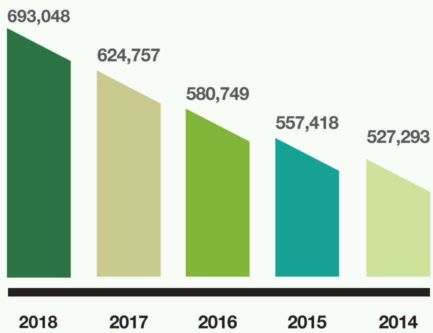
KD 000's



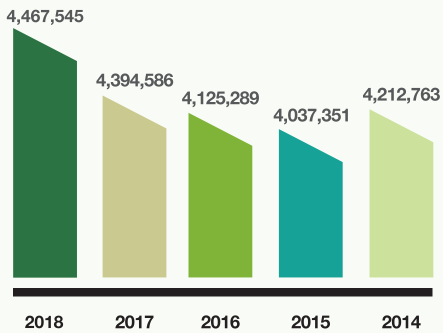
Earning Per Share Attributable to Shareholders of the Parent Bank
Fils Per Share



Return on Shareholders' Equity
(Average) %



Equity Attributable to Shareholders of the Bank
KD 000's



Total Assets
KD 000's

Board of Directors

Sheikh. Ahmad Duaij Al Sabah
Chairman

Ms. Anoud Fadel Al Hathran
Vice Chairman

Mr. Manaf M. AlMuhanna
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

Sheikh/ Talal M. Al Sabah
Member

Mr. Hazem Meshari Al Khaled
Member

Ms.Mona Hussain Al-Abdulrazzaq
Secretary to the Board

Introduction

Introduction

Al Tijari... My Choice

Established in 1960, Commercial Bank of Kuwait, a renowned financial institution, is the second oldest bank in Kuwait. Since its inception in the sixties of the last century, the Bank strives to build strong business relationships with all its customer segments and to deliver innovative and tailor-made banking services & investment solutions that cater for the needs of its retail & corporate customers alike.

With the digitalization of the banking services, the Bank was up to the mark with the high-technology and modernization of banking services for the sake of customers' satisfaction. Apart from the Bank's self-service branch network which copes with the latest developments seen in banking industry, Al-Tijari Online Banking & Mobile App offer customers top-notch & secured banking experience.

As the Bank is an integral part of Kuwaiti society, its significant footprint & rich record of social responsibility initiatives towards all society segments has always been proven & manifested through comprehensive programs targeting sustainable development of Kuwaiti society.

With its decades of experience and ambitious plans, the Bank will continue its efforts to make a major leap in banking industry by utilizing the latest technology to offer innovative banking services & solutions through a professional & highly skilled team members, without compromising on its commitment to the values established by the Bank's Senior Management, namely citizenship, leadership and corporate social responsibility.

Chairman's Message

Chairman's Message

Sheikh. Ahmad Duaij Al Sabah
Chairman

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

It is both an honour and a privilege to deliver my first statement as the Chairman of the Bank. Bank's results in 2018 demonstrate the solid progress being made to advance our customer-focused growth strategy, digitalization drive, cleaning the loan portfolio, recovery of previously written off loans and building a quality balance sheet. Bank's business plans continue to deliver sustainable results and value to shareholders. The Bank witnessed 15.0% increase in the net profit and the board recommended the highest ever dividend distribution in the last ten years (20% cash and 10% bonus). I am pleased to share with you that achieving the Zero non-performing loans level is a demonstration of our commitment to operate within our risk appetite and maintaining strong capital and liquidity positions.

Overseeing the strategy

One of the board's most critical roles is to provide oversight on strategic direction. We provide guidance to management in order to focus on markets and segments where Commercial Bank is positioned to succeed. In order to anticipate and respond to a dynamic marketplace, we advise management on strategic plans, challenge assumptions, and assist in identifying and building pathways to sustainable growth, within the bank's risk appetite. In 2018, we supported the Management Team while challenging appropriately in order to ensure that the Bank continues to fulfil its obligations to our customers, regulators and employees. Besides achieving these objectives, the board focused to create value for investors over the medium and longer term.

A customer-first approach

In banking, relationships matter more than ever. This helped shape our thinking about every interaction we have with our customers and how we manage and invest in our bank. In 2018 we continued focusing on our customers and innovating for the future. These priorities have enabled us to invest in our business with the goal of further enhancing our relationships with our customers. We have stayed close to our customers to understand what's important to them and how we can best serve them. We continued to invest in our technology and digital platforms to meet the evolving needs of our customers. This includes our investments in online and mobile banking to deliver industry-leading functionality. We concentrated on improving the information security systems of the bank to protect our customers. New measures were introduced on our website to incorporate more effective security features. Mobile banking application was enhanced significantly in 2018, offering a host of new features and allowing customers to conduct their banking transactions more easily and efficiently. Security and user functionality continue to be the primary focus as we enhance our online and mobile banking applications.

Talent Management

Talent management, including senior management succession planning, is vital to achieving the Bank's strategic objectives over the long term. We take a comprehensive approach to pipeline development that includes early identification of key candidates and in-depth evaluation of the skills and expertise required for both the short and medium term. The Bank's staff training and motivation programmes remained top priority during 2018. We Identified "High Performers" to unveil their leadership potential and accordingly provided them with targeted personal development training opportunities to grow their professional skills. As the banking industry continues to evolve, diversity of experiences, perspectives and backgrounds at all levels of management becomes a competitive advantage and the key to successful execution of the bank's strategy.

Robust risk management

The board assesses management's plans to ensure business opportunities are balanced with sound risk management priorities and an effective enterprise-wide framework. Board Risk Management Committee actively engages with management to assure that a strong risk culture is supported at all levels and that the bank's risk management function is independent from the businesses. We also provide guidance on, and approve the bank's risk appetite, and maintain open two-way lines of communications with regulators.

Synopsis of 2018 Financials

The results of our customer-first approach, talent development and robust risk management are reflected in the financial statements of the bank as we generated a net profit of KD 63.8 million in 2018 compared to KD 55.4 in 2017, a growth of 15.0%. These results have reflected positively on the performance ratios, where return on average equity reached 9.7% and the return on average assets reached 1.4%. The earnings per share are 35.4 fils (compared to 30.8 fils for the last year). Shareholders' equity reached KD 729.0 million with a growth of 11.4%. Cost of funds was maintained at a reasonably low level. The cost/

income ratio is 29.7% for year-ending 31 December 2018, which is amongst the lowest in Kuwaiti banks. A concentrated effort to recover the previously written-off loans yielded results; KD 78.5 million were recovered during the current year.

Looking at the future

Since I took on the Chairmanship of Commercial Bank, I am very proud of how we have evolved our culture, re-focused on our customers and enhanced shareholder value. We are well positioned to deliver growth for our shareholders by executing our strategy to build a relationship-focused bank.

I am incredibly proud of all the work our team is doing together to focus on our customers, delivering value to our shareholders, and strengthening our economic environment. We are committed to continue to provide effective and efficient services every single day to our valued customers, and we appreciate the trust our customers place in us. Last but not the least, thanks to all the regulatory authorities, especially the Central Bank of Kuwait for their constant support.

SH.AHMAD DUAIJ AL SABAH

Executive Management

Executive Management

Elham Yousry Mahfouz
Chief Executive Officer

Sahar Abdulaziz Al Rumaih
Deputy CEO – Corporate Banking Division & International Banking Division

Hameed Ebrahim Salman
GM – Retail Banking Division

Masud Ul Hassan Khalid
Chief Financial Officer – Financial Planning & Control Division

Hussain Ali Al Aryan
GM- Treasury & Investment Division

Abhik Goswami
Chief Risk Officer – Risk Management Division

Paul Abdoulnour Daoud
GM – Operations Division

Kunal Anirudh Singh
Head – International Banking Division

Dr. Mohammad Abdul Hamid
Acting Legal Advisor to Chairman
Acting GM – Legal Division

Tamim Khaled Al Meaan
GM- Compliance & Corporate Governance Division

Sadeq Jaafar Abdullah
GM-Human Resources Division

Sheikha. Nouf Salem Al-Ali Al-Sabah
GM- Corporate Communications Division

Ahmad Mohammed Saif Al Deen Farahat
Chief Internal Auditor – Internal Audit Division

Bader Mohammed Mosleh Qamhiya
Acting GM – ITD

Sheikh. Nawaf Ali Sabah Al-Sabah
Senior Manager – General Services Division

Economic Background

Global Economy:

Global growth is projected to reach 3.9 percent in 2018 and 2019, in line with the forecast of the World Economic Outlook (WEO), but the expansion is becoming less even, and risks to the outlook are mounting. The rate of expansion appears to have peaked in some major economies and growth has become less synchronized. In the United States, momentum is strengthening in line with the WEO forecast, and the US dollar has appreciated all major currencies and Emerging Market currencies. Growth projections have been revised down for the euro area, Japan, and the United Kingdom, reflecting negative surprises to activity in early 2018. Among emerging market and developing economies, growth prospects are also becoming more uneven, amid rising oil prices, higher yields in the United States, escalating trade tensions, and market pressures on the currencies of some economies with weaker fundamentals. Growth projections have been revised down for Argentina, Brazil, and India, while the outlook for some oil exporters has strengthened.

The balance of risks has shifted further to the downside, including in the short term. The recently announced and anticipated tariff increases by the United States and retaliatory measures by trading partners have increased the likelihood of escalating and sustained trade actions. These could derail the recovery and depress medium-term growth prospects, both through their direct impact on resource allocation and productivity and by raising uncertainty and taking a toll on investment. Financial market conditions remain accommodative for advanced economies—with compressed spreads, stretched valuations in some markets, and low volatility—but this could change rapidly. Possible triggers include rising trade tensions and conflicts, geopolitical concerns, and mounting political uncertainty.

Kuwait Economy:

Growth is projected to rebound to 3.5% in 2019 as OPEC+ production cuts taper off, and oil output and exports increase. Plans to invest US$115 billion in the oil sector over the next five years should also boost oil production. With additional support coming from public investment spending, growth should rise to about 2.7% over the medium term. Current account and budgetary pressures are expected to continue easing on the back of a recovery in oil revenues.

Kuwait's current account registered a surplus of KD 4.7 billion (23% of GDP) in the first half of 2018, its best performance in four years.

KWD interbank money market remained very liquid throughout the year 2018.

Kuwait is rated by S&P AA, Fitch AA and Moody's Aa2 with stable outlook.

USDKWD traded in a range of 0.3000 to 0.3040 in 2018.

Kuwait Stock Market:

The Bourse Kuwait all share index ended December 2018 at 5079 posting YTD return of 1.6% per annum from the date of segmentation.

Boursa Kuwait's turnover declined by 27.7% to KWD 4.13 billion ($13.63 billion) in 2018 compared to KWD 5.71 billion ($18.85 billion) in 2017.

The trading volume decreased in 2018 by 57.5% to 21.37 billion shares from 50.22 billion in 2017. Despite rising interest rate and global economic challenges, Kuwait stock market outperformed mainly due to recovery in oil price. MSCI Kuwait Index will be included in the 2019 Annual Market Classification Review for a potential reclassification from Frontier Markets to Emerging Markets status, this could boost more capital inflow in the country. Major challenging factors to be considered going into 2019 will be a slowdown in the real-estate sector accompanied by rising cost of funds resulting in major pressure on the corporate profitability.

However, as long as oil prices continue to remain high, no major correction will be there and steady investment flow can be seen.

Review of Operations

Retail Banking Division

Commercial Bank of Kuwait offers a wide spectrum of retail banking products & services tailored-made to cater for customers' needs and suit their lifestyle. For the sake of customers' convenience & satisfaction, the Bank's comprehensive array of banking products & services include all types of accounts such as current accounts, saving accounts or deposit accounts in addition to the personal financing solutions covering personal loans as well as a variety of credit cards which offer our customers the utmost degree of flexibility and enable them to make their purchases quickly, easily and safely.

Furthermore, retail banking services & product offerings comprise many rewarding programs for different customer segmentation. This includes premier banking segment, kids segment, youth segment, salary-transferred customers' segment and other segments. In order to enable our customers to bank with us and get their diverse banking transactions processed smoothly, swiftly and safely, RBD employs the latest technology to provide customers with state-of-the-art digital banking services that cover Online Banking, CBK Mobile App, Tele-banking and SMS in addition to a large network of ATMs for Cash Withdrawal & Depositing across Kuwait.

Year 2018 saw RBD launching new products & solutions that truly illustrate the comprehensive quality services & solutions offered to customers on one hand and demonstrate the Division's ongoing initiatives to achieve the Bank's vision towards developing the electronic solutions for all services & products provided to customers on the other hand. The below are RBD's initiatives to enhance customers' banking experience with the Bank:

- Initiating the new prize scheme of Al-Najma Account in concurrence with a big campaign launched in Kuwait for promoting this new prize scheme which was revamped to offer the biggest cash prize related to a banking account over the globe for an amount of KD 1,500,000 (1 million and half Kuwaiti Dinar). The revamped prize scheme of Al-Najma Account has proved to be extremely successful particularly with the Bank's endeavors to get Al-Najma Account set Guinness World Records.

- Coping with the global technology advancement, the Bank has launched the debit cards supporting NFC technology which allows debit card holders to pay easily without having to enter their PIN number. This service is meant to help debit cardholders pay quickly for all purchases that are worth KD 10 or less.

- Launching the medical loan product in cooperation with a number of medical centers with a view to satisfy customers' needs and requirements.

- Launching Al Najma Account opening service via the e-channels, a service provided to the customers who maintain accounts with the Bank.

- Launching a new service that enables customers to update their Civil ID information easily & conveniently via CBK Mobile App without the need to visit any of the Bank branches.

- Launching NFC Control where cardholders can activate / deactivate NFC on debit card payments. This service gives customers the choice to control their payment options. Al-Tijari is the only Bank in Kuwait that provides this service.

- Launching Activate & Fly Service that allows customers to activate their debit / credit cards before travelling via e-channels. This service protects customers against cards skimming. As such customers may not need to contact Customer Service Center.

- Within its focus on the youth segment, the Bank in collaboration with Vox Cinema located at Avenues Mall – New Phase, offered 50% discount on cinema tickets for @Tijari Account holders.

- Within its endeavors to provide excellent services to Premier Banking customers, the Bank in cooperation with Yemnak Company launched Eidiya Delivery Service for this segment in Eid Al-Fitr and Eid Al-Adha. This service witnessed high demand from Premier Banking customers who highly commended this service.

- Arranging several activities for My First Account's customers and @Tijari Account's customers for their full satisfaction and to enhance their loyalty towards the Bank.

- Launching Documents Verification Service that helps customers to avoid forgery. This service includes a large number of documents such as account statement, certified cheques, debt certificate and other documents.

- Launching Live Chat Service (audio video) via CBK Mobile App and this service is provided by the Bank for the first time in Kuwait.

- Organizing a number of campaigns for promoting the Bank's products by launching salary transfer campaign in addition to a promotional campaign on the credit cards issued by Visa on the occasion of FIFA World Cup with various prizes offered to the winners for travelling and attending the Word Cup football matches in Russia. In addition, the Bank launched a campaign to all credit cardholders during summer and travel season to be eligible for entering the draw and get chances to win prizes to travel to countries of their choice with hotel expenses and companions with the winners. The campaign also included a draw on a grand prize of 1 KG Gold.

- Introducing a number of the new services that customer can obtain through the interactive service platform including the following:

1. Applying for credit card.
2. Opening or renewing new deposits.
3. Activating e-services.

Retail Banking Division will continue its efforts to reinforce the Bank's profound franchise in retail banking by launching new and innovative banking products and services so that Al-Tijari would remain the First Choice for all customers.

Corporate Banking Division

Corporate Banking Division (CBD) is one of the main business Divisions of the Bank. It is a major contributor to the revenues and profits of the Bank. The Division aims at optimizing the risk and return by focusing on financing high quality assets from diverse sectors of the economy. The Division remained focused on improving the quality of credit portfolio and reducing the percentage of Non-Performing Loans. Amidst the challenging business environment which continues to weigh on the cash flows of corporate customers, CBD continuously provides support to its customers to tide over their temporary cash flow mismatches and meets their specific requirements.

Corporate Banking Division has a team of highly skilled professionals having significant exposure and experience in handling customer relationships and providing structured solutions. The Division functions through 3 specialized units viz. Contracting & Services Unit, General Trade Unit and Investment & Real Estate Unit which cater to requirements of various sectors. A dedicated and specialized Credit Analysis Unit within CBD focuses on conducting detailed financial, industry and overall risk analysis of customers which works closely with the above 3 units to prepare comprehensive credit proposal and also helps in structuring credit proposals to suit the requirements of the corporate customers.

Credit is extended by way of short term working capital facilities to finance day-to-day operations and also medium/long term loans for capital expenditure and investment needs. In addition, CBD endeavors to support Kuwait's economic growth by extending credit facilities through direct financing or by participating in syndicated loans to finance mega government/quasi-government projects/PPP projects. Besides, CBD is also focusing on financing emerging sectors. CBD has participated in syndicated loan arrangements in the oil & gas sector and also extended direct financing in the retail/consumer sector. Some of the major financing transactions include financing of New Justice Palace contract of Amiri Diwan valued at KD 238 million, participation in a syndicated loan arrangement of KD 900 million (conventional bank component of KD 390 million) for development of LNG import facility and other works in Al Zour Complex, construction and maintenance of Roads, Bridges, Storm Water Drainage, Sewer and Other Services for Cairo Street with a project value of KD 106 million, construction and maintenance of Phase 1 of road project of 6th Ring Road with a project value of KD 90 million and construction and maintenance of 25 general buildings in West Abdullah Al-Mubarrak with a project value of KD 37 million.

CBD continuously strives to tailor the product offerings to meet specific requirements of its customers and enhance the relationship.

International Banking 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 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 2018, despite challenging operating environment saddled with ample global liquidity, low oil prices and persisting tight margins, the Division has continued to increase its contribution to the Bank's over-all profitability. Through a combination of syndicated and bilateral transactions as well as establishing new business relationships, the Division posted growth in its portfolio of funded and unfunded assets. The Bank was one of the mandated lead arranger and bookrunners for a syndicated facility of USD 515 mil for a far eastern company. The international banking team also successfully arranged a club loan of USD180 mil for a Korean EPC Company, Daewoo E&C with two other local Kuwaiti Banks. During the year, the international team also successfully closed number of bilateral transactions with banks in the GCC region. Further, the Division scaled up the new funded product line viz., structured trade finance which was launched in 2015.

The Bank is the initial mandated lead arranger and bookrunner for a major Public Private Partnership (PPP) project in Kuwait. The impending financial closure of the project augurs well for the Division's continuing growth in 2019. The Bank has also supported a Greenfield refinery project in Oman being jointly developed by KPC and Oman Oil by participating in the international commercial facilities of the project.

Tightening of global liquidity and upward shift of credit spreads arising from the likely increases in the US Federal interest rates and tapering of the Quantitative Easing (QE) by the European Central Bank as well as continuing global economic development is also expected to boost the Division's overall profitability and growth in the coming years.

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 and Investment Division

Strengthening Bank's liquidity and optimization of balance sheet were the main focus of TID during the year 2018. Despite drop in the HQLA portfolio due to redemption of CBK T-Bonds and stoppage of new T-Bond issue, our LCR & Reserve Ratio remained very strong. TID's well defined strategy of funding and deploying in various currencies helped to arrest the rising cost of funds.
TID has used both domestic and international markets for funding the balance sheet as well as for managing the foreign exchange and interest rate exposures. Strategies such as switching from short term deposits to long term, adding new and cost effective borrowing sources, timely hedging of interest rate or funding gap risk using derivatives (IRS/ FX SWAP), boosting corporate customer FX sales have helped Treasury to achieve its profitability.

TID 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.
TID'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, investment portfolio.
• **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

Growth is witnessed in the customer deposits, corporate bond portfolio, FX profitability and IRS hedging. Greater productivity with Strict adherence of all regulatory guidelines and ethical practices combined with innovative technology helped TID achieve its goal.

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 and 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 and International Banking 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. Bank-wide BCP test was conducted successfully in May 2018.

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 under ICAAP, 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. Stress tests were conducted on time and the results reported. 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.

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 Anti Money Laundering unit is under the Risk Management Division. It follows policies and procedures approved by the Board of Directors that comply with the instructions issued by the Central Bank of Kuwait and the international best practices in this regard so as to reduce the risks from money laundering and terrorism financing. The Bank has developed a toolbox of AML policies, procedures, and systems, all helping it to meet its obligations to help identify and block money laundering and terrorism financing and monitoring transactions from sanctioned entities. The unit also reports transactions which are judged to be of unusual or suspicious nature to the Kuwait Financial Intelligence Unit (KFIU). It also provides ongoing training for all staff members on processes and techniques relating to anti-money laundering measures and combating the financing of terrorism.

Credit Administration Department was moved under Risk Management Division from May 2018. Credit Administration Department being responsible for credit documentation, collateral creation, processing and setting up of facilities and limits in core banking system in respect of Corporate Banking and International Banking credit apart from periodic updating of collateral valuations, is playing a vital role by providing the necessary support to the business units in ensuring that the Bank's interests are legally protected and the Credit portfolio remains safe by complying with approved credit terms and conditions, CB and internal policy requirements etc. Credit Administration and Control Unit together are ensuring that the processing and operations of credit facilities are strictly in line with the approved terms and that the interests of both the bank and the client, are safe guarded.

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.

IFRS9 implementation:

The Risk Management Division continued to be actively involved in the IFRS9 implementation project and was instrumental in validating the outputs of the IFRS9 related calculations in co-ordination with FP&C. The division also was instrumental in updating the PD associated with different risk grades as well as reviewing the stage classification of customers.

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 uses an obligor risk rating model developed and periodically validated by reputed external consultants. 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 obligor and collateral concentration under Pillar 2 of Basel III. Measurement of concentration risks uses a model that comprehensively captures name, sector and geographic concentration risks. A HHI (Herfindahl–Hirschman Index) based model was introduced during the year for calculating capital for sector and geographical concentration.

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. Economic capital calculations for market risk are calculated from "Expected Loss" in line with BIS norms.

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 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. 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 2 for Interest Rate Risk is also measured regularly.

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. Key Risk Indicators (KRIs) are also monitored regularly. 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 Division

The banking sector has experienced a rapid transformation. Due to the advent of technology and automation there is a new trend in the banking system. The advancement in technology and introduction of information technology played a significant role in improving the services offered to customers.

As such, Information Technology Division's strategy for the year 2018 is to adopt new technologies in order to offer more services and convenience for the customers. We are the first Bank in Kuwait to implement the Swift GPI a mandatory requirement from Swift. This allows the tracking of the fund transfers of the customer from the initiation of the transaction to the actual credit to the beneficiary.

In the front-end changes were made in the Self Service and Kiosk. We added services like Managers Check issuance, Opening of Fixed Deposit, Fund transfer of foreign currency from one account to another. These and other services that are aligned with the business objective of the Bank of attracting more customers and servicing them better.

On the back end systems, the Core Banking system is upgraded. It is now using the latest technology in terms of the application server and database server. This addresses the security issues raised by our External auditors. This upgrade has also given us the ability to support a larger range of product features that our Bank can offer to the customers.

Our Network continues its rebuilding process. New networking technologies will be implemented which will result in a more efficient and secured flow of transactions from the front to back end. It will also allow Branches to process transaction faster than before.

IT Division believes that the key driver to change has largely been the increasing sophistication in technology and the growing popularity of the internet and mobile applications. The shift from traditional banking to e-banking is changing customer's expectations at Commercial Bank of Kuwait. Information Technology Division shall continue its endeavors to turn such expectations into reality by enhancing customers' experience and making it a success.

All the above mentioned achievements helped in positioning Commercial Bank in a better place among its peers to compete with other Banks in the market.

Operations Division

The Operations Division is at the core of processing every transaction within the Bank. Operations staff work closely with other divisions to facilitate businesses and provide guidance, support and directions as and when needed.

2018 was yet another remarkable year for Operations. The Division has been successful in managing overall operational efficiencies through ongoing optimization, workflow streamlining, monitoring & control processes, and thereby providing improved service to both internal & external customers in a way that would always ensure that the more efficient the Bank is at conducting its businesses, the greater the percentage of revenues that will feed into the bottom line.

VIRTUAL BANKING (VB)

The Virtual Banking Unit has been providing support to the Branches, by managing customers using the Self-service KIOSKs.

The Unit handles both financial and non-financial transactions initiated by customers; centralization of the Virtual Banking Unit has enabled the Bank to provide uniform Customer experience across the Branches network.

CASH MANAGEMENT CENTRE (CMC)

The CMC has been successful in providing 24/7 availability of cash in both the ATMs and Branches, during peak salary periods, weekends and public holidays.

The Business Cash Centre has also been operating at full capacity during extended working hours and public holidays to facilitate customers' cash requirements.

As compared to the same period in 2017, Customer transaction value doubled; and the total number of notes managed increased by 20%.

CONTACT CENTER

The Bank's Contact Center has been successfully providing 24X7 support for all Customer contacts through voice and video calls.

'Live Chat' services have been introduced, customers can chat, make video or audio calls with Contact Center representatives 24/7 over the web. In addition, the Contact Center representatives assist customers in their online banking issues by 'co-browsing' with them and giving the necessary guidance

in a timely manner.
Customers' Services through social media channels (Twitter, Instagram, Facebook, Snapchat, Linkedin & WhatsApp) have been improved and those channels are not only general information channels, but also service channels in which customers can report any issue / emergencies and get the necessary help instantly.

TRADE SERVICES DEPARTMENT

The Department has introduced process automations & Systems to communicate between internal departments, with regards to customer referrals. The process automation has prevented customer services issues or delays and sped up turnaround times.

TREASURY AND INVESTMENT OPERATIONS

The department has been making great progress in moving to a paper-less environment. Documents are being sent, received and stored in electronic formats, resulting in cost savings and enabling ease of reference in future.

RETAIL CREDIT ADMINISTRATION & PROCESSING

The department has introduced the process of receiving and processing 'Pre-approvals' through electronic means. The Department supports the Branches in ensuring accurate credit criteria & documentation for Loans.

Procedures Documentation Unit

Procedures Documentation Unit has managed to release a number of procedures during 2018 in terms of new/updated procedures in order to support all divisions in having proper procedures for new and amended processes and business.

Human Resources Division

In an effort to maintain alignment with our mission and the overall strategic plans of the Commercial Bank of Kuwait, the Human Resources Division has put conscious effort towards improving of its overall processes and day-to-day activities. Kuwaitization and job succession have been an ongoing effort for Human Resources. This was positively reflected with an increase of Kuwaiti manpower to constitute more than 73% of total workforce in the Bank as at 31/12/2018.

Job Fairs:

CBK's has actively participated in job fairs hosted by universities such as Kuwait University and GUST, while also taking part in government sponsored job fairs like those hosted by the MGRP. This has led to widening of the CBK brand to prospective candidates, while simultaneously acquiring local talents as new employees.
Attracting a large number of applicants has increased the qualified talent pool. This has improved the overall business efficiency by having new and replacement employee ready whenever a necessity arises.

LinkedIn

The Recruitment Department's presence in online recruitment forms and powerhouses such as Bayt.com and Linked-In has increased the brand exposure of CBK. Our Linked-In followers have gone up to 12,000 followers, which is a 25% increase from last year.

THABER E-learning Portal

In an effort to further enhance THABER's existing behavioral library; Technical programs designed by a certified vendor "Intuition" have been added to the portal. Hence employees are now able to navigate through comprehensive program offerings related to their role.

CBK Dress Code

In order to improve the awareness for CBK's Dress Code; L&D designed - in collaboration with a third party specialist - an animated infographic to address the related policies and attributes in an appealing and creative way. The video will be communicated to all employees and uploaded at a later stage on THABER portal in 2018 Q4.

HRMIS

HRMIS has aligned IT technology and policies, which enhanced its services provided and improved overall the efficiency throughout all job levels. The department in collaboration with the L&D department enhanced the Training module in Mystro which reduced manual entries and provided automated & customized reports.

Internal Audit Division

Internal Audit Division independently oversees the efficiency and effectiveness of the Bank's controls. With the implementation of Basel 3 standards, IAD recognizes the importance of risk based audit with a view to identify risks associated with the Bank's business activities.

Internal Audit successfully completed 2018 approved audit plan including banking operation audits and IT Bank-wide audits along with audit check of all the Bank branches' activities. In 2018, the audit plan focused on Operations Group activities where many process re-engineering were initiated.

The Division believes in the importance of its proactive role with all the Bank's business units where the Division welcomes any enquiries & clarifications on any issues that business units/ branches may have with a view to avoid possible violations that may result from lack of awareness of applicable controls and best practices.

Internal Audit also provides the Bank's Management with advisory services for several issues related to financial statements, operations, business process and policies & procedures.

Internal Audit Division always encourages its staff to develop and enhance their skills & professional knowledge in all banking processes as it realizes the importance of continuous learning for its staff members to gain the knowledge, skills and experience required to perform their duties in an efficient and effective way. From this standpoint, and during 2018, IAD assigned three staff members to attend the "Certified Internal Auditor" course to acquire their CIA Certification as a part of the Division's development plan in addition to many other training programs for other staff.

Compliance and Corporate Governance Division

Compliance & Corporate Governance Division is an independent function which reports directly to the Board Corporate Governance Committee. Compliance & Corporate Governance Division has pivotal role in helping the Bank avert any risks that may arise from non-compliance with the instructions issued by local regulators, basically the Central Bank of Kuwait. CCGD achieves this goal by continuously verifying and ensuring that the Bank's bylaws & policies are consistent with the regulatory requirements. Further, CCGD is a point of reference within the Bank as it reacts to all queries related to compliance with regulatory regulations and strengthens its cooperation with all the Bank's departments & divisions and also acts as a liaison between the Bank and regulators in relation to the instructions issued on compliance and any related issues, in addition to its efforts & endeavors to enhance the compliance and governance environment & culture for all staff members in the Bank. CCGD is responsible for preparing regular reports on compliance and corporate governance framework within the Bank. Such reports are usually raised to the Board Corporate Governance Committee which will in its turn present the same to the Board of Directors. The Division undertakes its duties & functions through Compliance Unit and Corporate Governance Unit.

Compliance Unit

Compliance Unit is responsible for scrutinizing the Bank's compliance with the local 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 undertakes the following:

- Provide the required assistance to the Bank's different departments /divisions to clearly & precisely understand the regulatory instructions along with interpreting and clarifying the same to the departments/divisions.
- Preparing and updating the Bank's compliance policy.
- Reviewing the bylaws and policies to ensure their consistency with the regulatory instructions.
- Acting as a point of reference within the Bank regarding all queries related to compliance with regulatory instructions.
- Coordinating between the Central Bank of Kuwait's inspectors and the Bank's different departments/divisions with regard to the inspection conducted on the Bank and between External Auditors and the Bank's different departments/divisions with a view to streamline the External Auditor's engagement in examining the internal control systems within the Bank.
- Participating in the training sessions organized for the Bank's staff members with a view to get them aware of all compliance related issues.
- Following up the rectifying actions taken by the Bank's different departments/divisions with regard to any violations/remarks raised by the regulatory authorities.
- Monitoring subsidiaries' compliance with regulatory requirements.
- Monitoring the implementation of the requirements of the Foreign Account Tax Compliance Act (FATCA).
- Monitoring the implementation of the requirements of the Multilateral Agreement concerning exchange of financial information for tax purposes.

Corporate Governance Unit

Corporate Governance Unit is responsible for verifying the implementation of the Central Bank of Kuwait's instructions on Corporate Governance principles as well as the rules & controls contained in Corporate

Governance Manual. The Corporate Governance rules cover disclosure & transparency standards where the Bank endeavors to strictly comply with such standards as per the instructions of the Central Bank of Kuwait, Capital Markets Authority and Boursa Kuwait. The Corporate Governance Unit also conducts regular review of the Bank's Corporate Governance & disclosure framework. The Unit is tasked with the following duties:

• Take the necessary actions to monitor the Bank's implementation of the Central Bank of Kuwait's requirements & instructions on Corporate Governance rules.
• Review and update Corporate Governance Manual, bylaws and Corporate Governance related policies to ensure that they are in line with the Corporate Governance rules as per the local regulatory instructions.
• Take the necessary actions with regard to disclosure and transparency requirements as per the applicable regulations in this regard.
• Act as a point of reference within the Bank regarding the queries raised on Corporate Governance and disclosure.
• Verifying the extent to which subsidiaries satisfy Corporate Governance requirements.
• Participate in the training sessions organized by the Bank to get staff members familiarized with all issues related to Corporate Governance principles and disclosure.

During the year 2018, Compliance and Corporate Governance Division handled some new requirements, including the following:

• Implementing the requirements of the Foreign Account Tax Compliance Act (FATCA) and the Multilateral Agreement concerning the exchange of financial information for tax purposes and this is related to submission of 2017 reports to the Ministry of Finance in addition to amending the self- certification forms and other procedures applicable within the Bank based on the remarks raised by External Auditors.

• Complying with the implementation of the instructions of the Capital Markets Authority and Boursa Kuwait's rules on disclosure requirements and the Ministry of Commerce & Industry's resolutions on the controls & rules governing the minutes of General Assembly Meetings and the procedures of declaration issued during the year.

Legal Division

The Bank's in-house Legal Division assumes an effective role in providing the Bank's diverse departments & divisions with the professional legal services in such a way that meets their requirements, safeguards the interests of the Bank & its shareholders and customers, maintains its corporate image and helps the Bank to compete & outperform its local peers for having a leading edge and enhancing its important role & position in banking industry. Thus, Legal Division endeavors, through a professional working environment & clear objectives, to swiftly render the required legal services in such a professional manner and this was clearly manifested and occurred frequently in 2018.

The Legal Division aims to have in place a competent team specialized in all legal affairs and able to effectively & efficiently adopt and deal with the Bank's plans & strategies. The Legal Division continuously endeavors to enhance the capabilities of all its employees through training and development.

The Division, with the units under its supervision, has achieved its objectives where it managed to collect large amounts in relation to the non-performing loans in 2018.

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

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

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

Additionally, the Division works closely to establish an effective mechanism to rapidly entertain & 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 & regulations as well as challenges & developments and the increasing competition seen in banking industry.

The Division also places high importance for getting staff members, particularly the new recruits at the Bank's different departments & branches familiarized and aware of the legal issues & matters pertaining to banking business.

Corporate Communications Division

Within the Bank's Management's endeavors to cope with the new developments in the area of communication, advertising, publicity and public relations, the Advertising and Public Relations Department was renamed as Corporate Communications Division in the year 2018. This change came to reflect the evolution of corporate communication concept and to widen the scope of corporate communication to include social media networks which became of high importance for simultaneous communication & interaction with the customers and non-customers.

In another context, and during the year 2018, Corporate Communications Division continued its social responsibility efforts & programs for demonstrating the pioneering role of Commercial Bank of Kuwait as a socially responsible Bank. Drawing on this, the Division continued to be in the heart of society related events by offering sponsorship & support to several societal activities & events organized by civil society institutions to the benefit of all society segments.

Corporate Communications Division has had a proactive role in a number of social programs by participating & sponsoring a variety of educational, cultural, social and sporting activities during the year 2018, accentuating thereby the Bank's strong presence as an integral part of Kuwaiti society and that its effective communication & support for all civil society institutions is the real success of the Bank & Corporate Communications Division.

Furthermore, Corporate Communications Division was active & proactive in offering sponsorship, support and contribution to all societal and humanitarian activities throughout the year. This role was clearly illustrated during the Holy Month of Ramadan with the Bank, through Corporate Communications Division, arranging several philanthropic & humanitarian activities and distributing gifts & pre-dawn meals "suhoor" to the prayers at the Grand Mosque in cooperation with Kuwait Food Bank on the 27th night of Ramadan. The Bank also arranged other philanthropic & humanitarian activities that suit the Holy Month of Ramadan's spiritual surroundings.

At another front, Corporate Communications Division continued its annual humanitarian initiative under "Hawwen Alaihom" Campaign designated to offer support to road cleaners & construction workers at their work locations during summer and winter - this Campaign which was selected & named for GCC-CSR Award. The Campaign continued its great success by attracting several followers of the Bank's social media networks.

As a yearly ongoing practice, the Bank issued its annual calendar which consistently highlights the revival of the old Kuwaiti heritage and became an icon of the Bank's contributions in this scope by depicting scenes from the old Kuwaiti heritage. Year 2018 calendar's paintings mirrored Kuwaiti life during the sixties of the last century in all fields. Moreover, and for the seventh year in row, the Division launched "Ya Zeen Turathna" Campaign targeting the revival of the old Kuwaiti heritage along with educating the present & future generations of the worth-highlighting traditions of Kuwaiti ancestors to keep the essence of the past with its memories present in minds so as not to fade away with the ever-changing life cycle. This Campaign covered visits to a number of schools to get students of different educational phases familiarized with some features of the old Kuwaiti heritage.

In completion of the humanitarian activities which truly reflect voluntary social work, Corporate Communications Division, in cooperation with Kuwait Central Blood Bank, organized a blood donation campaign that saw impressive participation by the Bank's staff members. This campaign came within the numerous contributions offered by the Division to different civil society institutions.

Accentuating the comprehensive social responsibility, the Division continued to offer support & sponsorship for the activities organized by the Governorates of Kuwait (Capital, Hawalli, Farwaniya, Ahmadi, Mubarak Al- Kabeer and Jahraa) in 2018. As such, the Bank offered financial contribution for each Governorate to support all social, cultural, educational, sporting and health related activities organized by Kuwait Governorates. This comes out of the Bank's belief that its success and community development go hand in hand.

As for the in-house activities, the Division continued its successful and active cooperation with the Bank's diverse departments by organizing campaigns, activities and events for the banking services and marketing offers the Bank continuously provides and launches to its customers. Further, the Division has had a pivotal role in creating friendly & amicable atmosphere among the Bank staff members by organizing celebrations of Kuwait National Days in which the Bank's executives shared staff members their happiness of this important occasion for all nationals and residents alike.

The Bank's Corporate Communications Division constantly endeavors to activate all means of communication with its employees, customers and the public via social media networks (Instagram, Facebook, Twitter and Snapchat). Furhtermore, and through such social media networks, the Bank posts health awareness tips along with information about other humanitarian & social events in addition to the contests organized for the Bank social sites' followers.

Given the diversity of the Bank's activities in the area of social responsibility, Corporate Communications Division issued a booklet highlighting all societal activities & events organized and patronized by the Bank during the year 2018.

Corporate Governance Rules and Systems

First: Introduction

When applying Corporate Governance rules and systems, 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. As an essential part of its commitment to the highest standards of Corporate Governance, the Bank applies set of bylaws, policies and practices which aim to enhance Corporate Governance principles and promote Corporate Governance culture within the Bank.

During the year 2018, the Bank continued to enhance its policies & procedures with a view to effectively apply the instructions & standards pertaining to Corporate Governance rules to safeguard the Bank, its rights and the rights of its shareholders, depositors, creditors, customers, staff members and stakeholders. The Bank has in place a well-defined Corporate Governance structure that will guarantee that the existing procedures, bylaws 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 related to the Bank in compliance with the instructions issued by Capital Markets Authority and Boursa Kuwait. The Bank also posts this information on its website which also contains a brief manual on Corporate Governance rules as applicable at the Bank.

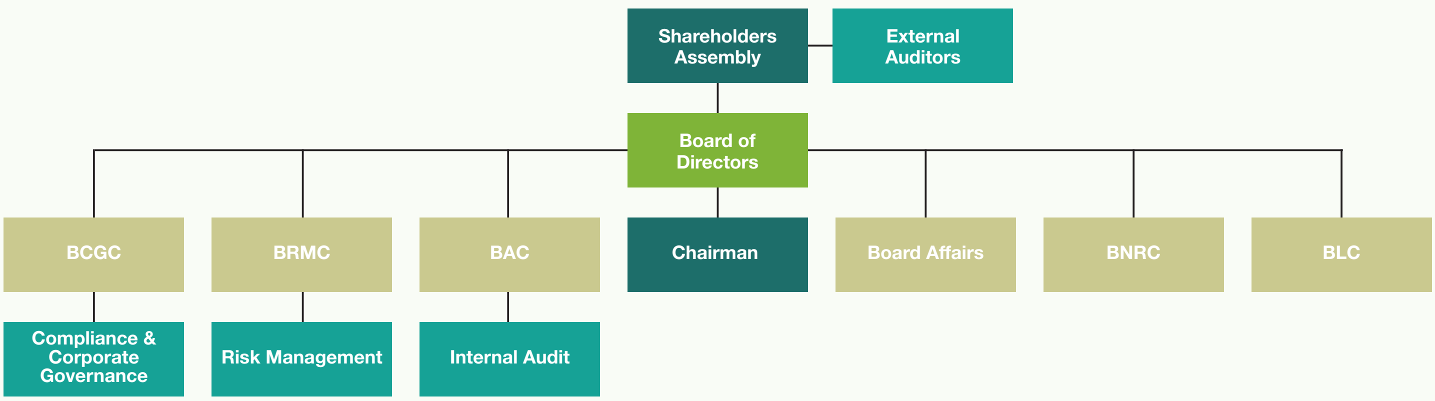
Second: Shareholders with a Percentage of the Bank's Share Capital

Presented below are the shareholders with a percentage exceeding 5% of the Bank's share capital as at the end of 2018:

- 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 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 through secret ballot for a term of three years by the shareholders in the General Meeting dated 31/3/2018 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 banking 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:

Sheikh / Ahmad Duaij Jaber AlSabah - Chairman

Sheikh / Ahmad is a Kuwaiti national holding bachelor of Science in Finance; year 2000 / Bentley University, USA and Master in Management 2008 / Kuwait Maastricht Business School.

Since 31/3/2018 Sheikh / Ahmad holds the position of the Bank's Chairman and he is the Chairman of the Board Loan Committee.

Prior to holding the position of Chairman of the Board in Commercial Bank of Kuwait, Sheikh / Ahmad has held the position of:-

The Vice Chairman during the period from 4/4/2015 until 31/3/2018, and

A Board Member during the period from 29/4/2012 until 3/4/2015.

Sheikh / Ahmad is also the Chairman of Al-Tijari Financial Brokerage Company since 2014 until present.

Sheikh / Ahmad held the following positions.

- Investment Manager in Tijari Investment Company during the period from 2010 to 2012.
- Credit analyst in Commercial Bank of Kuwait at Shareholders' Services Unit during the period from 2005 to 2010.
- Planner in Kuwait Petroleum Corporation during the period from 2001 to 2003.

Ms. Anoud Fadel Ibrahim Al Hathran – Deputy Chairperson

Ms. Anoud is a Kuwaiti national holding a bachelor degree in Accounting 2002 / Kuwait University and Master of Business Administration 2007 / Kuwait Maastricht Business School.

Ms. Anoud has gained various experiences from her work with the following entities:

- Senior Manager, Local and Gulf Investments in Global Investment House during the period from 2002 to 2007.

- Deputy CEO, investment funds and customers' portfolios in Securities Group Company during the period from 2008 to 2016.

Ms. Anoud was also a Member in Board of Directors of the following companies:

- National International Holding Company during the period from 2006 to 2007.
- The Kuwaiti Qatari Real Estate Development Company during the period from 2009 to 2016.
- Commercial Bank of Kuwait during the period from 7/4/2010 to 22/3/2011, then she held the position of Deputy Chairperson during the period from 23/3/2011 to 29/4/2012.
- Educational Holding Group Company during the period from 2016 to 2017.

• Kuwaiti Saudi Pharmaceutical Industries Company during the period from 2009 to July 2018.
• Tijara & Real Estate Investment Company since 2016 until present.
In addition to occupying the position of a Board Member once again in the Bank's Board of Directors and after being elected as Deputy Chairperson since 31/3/2018, Ms. Anoud is the Chairperson of Corporate Governance Committee and is also a Member in the Board Loan Committee.

Mr. Abdulrahman Abdullah Abdulrahman 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 and he is a member in the Ethical Review Committee – Dasman Diabetes Institute since 2010.

In addition to his present position as a Member in the Bank's Board of Directors since 29/4/2012, Mr. Abdulrahman is the Chairman of the Board Risk Management Committee and is also a Member in the Board Loan Committee.

Mr. Bader Sulaiman Abdullah 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 until present.
• 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 until present.

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 Risk Management Committee.

Dr. Arshid Abdulhadi Zaid Mubarak AlHouri
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 and Deputy Chairman of Yiaco Medical Company and he is now the Chairman of this Company. In addition, he was seconded for teaching in Kuwait University – College of Law during the period from 2012 until present.

In addition to his present position as a Member in the Bank's Board of Directors since 6/7/2013, Dr. Arshid is a Member in both the Board Audit Committee and the Board Nomination & Remuneration Committee.

Mr. Musaed Nuri Musaed AlSaleh AlMutawaa

Mr. Musaed is a Kuwaiti national holding a bachelor degree in Business Administration from Suffolk University, USA, 1998 He was also a Fellow at Harvard University's Center for International Affairs.

Mr. Musaed has more than 20 years of experience in areas of investments, advisory services, real estate, banking and managing companies.

• He is currently the Deputy CEO at MASS United Trading & Contracting Company.
• Former Deputy Chairman and CEO - National Projects Holding Company.
• Honored by the World Economic Forum (WEF) as a Young Global Leader (YGL).
• Member of the Young Presidents' Organization (YPO) since 2004.
• Former Member of the Board of Directors of the 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 his present position as a Board Member in Commercial Bank of Kuwait since 30/9/2014, Mr. Musaed is the Chairman of Nomination & Remuneration Committee and is also a Member in the Board Loan Committee.

Mr. Hazem Meshari Khaled Al-Zaid Al-Khaled

Mr. Hazem is a Kuwaiti national holding Bachelor of Science in Finance 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:

• Relationship officer in National Bank of Kuwait (from 1996 to 2000).
• General Manager in Al-Khaled Aluminum Company (from 2000 to 2005).
• The CEO – Al-Khaled Companies Group (from 2005 until present).
• Board Member in Kuwait Dairy Company (from 2005 until present).
• Board Member – Real Estate Financing Company (Al-Tashilat) during the period from 2008 until present.

In addition to his present position as a Member in the Bank's Board of Directors since 12/5/2015, Mr. Hazem is a Member in both the Board Audit Committee and the Board Corporate Governance Committee.

Ms. Rasha Yousef Hussein 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:

• Investment Officer in Kuwait Foreign Trading Contracting and Investment Company (KFTCIC) (1992 to 1996).
• Senior Officer in Kuwait Investment Company (1997 to 1998).
• Assistant Deputy Head - Operations / Global Investment House (1998 to 1999).
• Deputy Head – Operations / Global Investment House (2000 to 2006).
• Senior Vice Chairman – UNICAP Investment & Finance (Housing Finance Company (ISKAN) previously) since 2006 until present.
• General Manager - First Kuwaiti Educational Services Company since 2010 until present.
• General Manager - Al Reeyada International Educational Services Company since 2018 until present.
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 UNICAP (Housing Finance Company previously).
• Board Member in the private schools union.

In addition to her present position as a Member in the Bank's Board of Directors since 4/4/2015, Ms. Rasha is a Member in both the Board Corporate Governance Committee and the Board Audit Committee.

Sheikh / Talal Mohammed Al-Salman Al-Sabah
Sheikh / Talal is a Kuwaiti national holding Bachelor of Science in Business Administration 2001 / American University, Washington, D.C. Sheikh / Talal is currently working in Securities Group Company and he was a Member in Board of Directors of the following companies:
• Gulf Glass Manufacturing Company (from 2005 to 2006).
• Refrigeration Industries & Storage Company (from 2003 to 2008).

In addition to his present position a Member in the Bank's Board of Directors since 31/3/2018, Sheikh / Talal is a Member in both the Board Risk Management Committee and the Board Audit Committee.

Mr. Manaf Mohammed Ali Al Muhanna
Mr. Manaf is a Kuwaiti national holding a Bachelor degree in Architectural Engineering, 1989 / Miami University – USA and Master in Projects Management, 1997 / Kuwait University. Mr. Manaf gained various experience during his tenure whether at the level of board of directors or executive management in the following entities:
• Ministry of Defense - Military Engineering - Private Projects Controller (allied forces projects) (from 1992 – 2006).
• Gulf Dredging & General Contracting Company (from 2006 to 2018).
• Board Member in Oula Fuel Marketing Company (2009 to 2010).
• Board Member in Gulf National Holding Company (from 2010 to 2017).
• Board Member in Gulf Franchising Holding Company (from 2010 to 2018)
• The CEO of Platinum United Company since 2003 until present.

In addition to his present position as a Board Member in Commercial Bank of Kuwait since 31/3/2018, Mr. Manaf is a Member in both the Board Risk Management Committee and the Board Nomination & Remuneration 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, identifying the Bank's risk appetite & strategy, updating

Corporate Governance 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 and 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 & resolutions.

Key Achievements of the Board of Directors for the year 2018

- Regular review of risk management strategy.
- Reviewed and approved the Bank's quarterly & year-end financial statements.
- Continuous review of the Bank's organizational structure along with approving the amendments introduced to the same.
- Review of Capital Adequacy and stress testing reports as well as risk management's regular reports.
- Reviewed and approved the stress testing methodology.
- Approved the Bank's budget.
- Approved IT Strategy (2018 - 2020).
- Approved the updates & amendments introduced to the bylaws of the Board of Directors and the related Board committees.
- Approved the updates & amendments introduced to Corporate Governance related policies and requirements.
- Approved the updates & amendments introduced to risk management policies applicable at the Bank.
- Approved the updates & amendments introduced to the diverse policies governing the Bank's business activities.
- Approved the updates & amendments introduced to AML & CFT policy.
- Approved the amendments intended to be introduced to the Bank's Articles & Memorandum of Association.
- Approved the updates & amendments introduced to performance appraisal forms related to the Board of Directors, the Board Members and the CEO and the performance appraisal mechanism.
- Conducted review of the regular reports pertaining to the Bank's diverse business activities.
- Conducted review of the regular reports pertaining to duties & functions of the Board of Directors and the Board committees.
- Reviewed and assessed the performance of the credit & investment portfolios.
- Approved Business Continuity Plan.
- Followed up the remarks raised by regulators along with taking the necessary action in this regard.
- Followed up all developments related to legal proceedings initiated for safeguarding the Bank's rights.
- Reviewed the External Auditor's Internal Control Review (ICR) report for the year 2017 and follow-up reports prepared in this regard.

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

Within the process of enhancing the principles of Corporate Governance at the Bank, the Bank formed 5 Board Committees out of which 4 Committees assist in overseeing the application of Corporate Governance's different aspects in addition to the BLC which is concerned with all issues related to the 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	• Ms. Anoud Fadel Al Hathran – Chairperson, BCGC • Mr. Hazem Meshari Al Khaled • Ms. Rasha Yousef Al Awadhi
Main Functions & Responsibilities	• Prepare and update Corporate Governance Manual to be approved by the Board of Directors. The Manual shall include, as a minimum, the Central Bank of Kuwait's rules and instructions on Corporate Governance. The Committee also ensures that a brief manual of the main rules & controls contained in the above instructions is posted on the Bank's website. • Review the annual reports related to Compliance & Corporate Governance Division with a view to follow up the application of the rules and controls contained in the Corporate Governance Manual, monitor Corporate Governance practices at the Bank & raise the required proposals for updating the same, follow up the extent to which subsidiaries are in compliance with the applicable Corporate Governance requirements and present such reports to the Board of Directors for approving the recommendations contained therein. • Ensure that the Corporate Governance report contained in the Bank's annual report outlines the extent of the Bank's compliance with the Corporate Governance Manual & instructions along with clarifying the reasons for non-compliance cases – if any. • Propose / review any amendment to be introduced to the Bank's Articles of Association particularly when it is related to Corporate Governance requirements. • Propose / review the duties and responsibilities of both the Chairman and the CEO with due observation of the segregation between both positions and the independence of the same. • Review the Board of Directors' Bylaws and the various Corporate Governance policies such as code of conduct, the insider trading policy, transactions with related parties policy, conflict of interest policy, disclosure & transparency policy and whistle blowing policy and other bylaws & policies and Corporate Governance requirements, as per the regulatory instructions.
Key Achievements in 2018	• Managed to conduct ongoing review of the Bank's Corporate Governance Manual and verify that the Bank is in compliance with the contents of this manual. • Managed to review the comprehensive index of Corporate Governance manual. • Approved Compliance Unit's business plan (2018 – 2020). • Approved Corporate Governance Unit's regular business plan (2018 -2019). • Conducted review of the annual reports related to the Bank's Compliance & Corporate Governance for the year 2017 and which outlines the extent to which subsidiaries are in compliance with Corporate Governance requirements and reporting the same to the Board of Director for review along with raising the required recommendations in this regard. • Conducted review of the updates made to the Board of Directors' Bylaws. • Conducted review of the updates made to Corporate Governance Committee's Bylaws. • Conducted review of the updates made to transactions with related party policy. • Conducted review of the updates made to disclosure & transparency policy. • Conducted review of the updates made to whistle blowing policy. • Conducted review of the updates made to the controls & procedures related to convention of General Assembly Meetings and shareholders' equity. • Reviewed the updates made to the duties & responsibilities of the Chairman. • Reviewed the updates made to the duties & responsibilities of the CEO. • Reviewed the updates made to the duties & responsibilities of Secretary to the Board. • Reviewed the proposed amendments to the Bank's Articles and Memorandum of Association.

Board Audit Committee	
Composition	• Mr. Bader Sulaiman Al Ahmad – Chairman, BAC • Dr. Arshid Abdulhadi Al Houri • Mr. Hazem Meshari Al Khaled • Ms. Rasha Yousef Al Awadhi
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. • Assigned the duties & responsibilities pertaining to internal & external audit and internal control systems.
Key Achievements in 2018	• Conducted regular review of quarterly and year-end financial statements. • Managed to review and follow up the External Auditor's ICR report for the year 2017 along with monitoring the follow-up reports prepared in this regard. • Reviewed the findings of the inspection conducted by the Central Bank of Kuwait on the Bank following the receipt of the related reports. • Managed to review and follow up the reports prepared by Internal Audit Division. • Following up the implementation of the approved 2018 audit plan and the latest updates on the same. • Appraised the performance of Chief Internal Auditor. • Conducted review of 2019 internal audit plan. • Conducted review of the updates made to internal audit charter.

Board Risk Management Committee	
Composition	• Mr. Abdulrahman Abdullah Al Ali – Chairman, BRMC • Mr. Bader Sulaiman Al Ahmad • Sheikh / Talal Mohammed Al Sabah • Mr. Manaf Mohammed AlMuhanna
Main Functions & Responsibilities	• Review the Bank's present and future risk appetite and strategy, before getting it approved by the Board of Directors 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 subsidiaries 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 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 2018	• Managed to review risk management strategy (2017-2019) before submission to the Board of Directors for approval and follow up the implementation of the same on a regular basis. • Conducted review of stress testing methodology. • Managed to conduct review on capital adequacy and stress testing related reports as well as Risk Management Division's regular reports. • Conducted review of the regular reports related to the Bank's Anti Money Laundering Unit. • Managed to analyze Corporate Banking, International Banking Division, retail lending and investments portfolios. • Conducted review of the risk reports related to subsidiaries. • Managed to review the updates made to risk management policies before submission to the Board of Directors for approval. • Conducted review of the updates made to AML & CFT policy. • Conducted review of business continuity plan. • Conducted review of Risk Management Division's organizational chart.

Board Nomination & Remuneration Committee	
Composition	• Mr. Musaed Nouri AlSaleh – Chairman, BNRC • Dr. Arshid Abdulhadi AlHouri • Mr. Manaf Mohammed AlMuhanna
Main Functions & Responsibilities	• Provide recommendations to the Board of Directors regarding the nominees for board membership pursuant to the Central Bank of Kuwait's rules and instructions issued in this regard. • Conduct an annual review for the necessary and appropriate training needs for board members to enhance the skills & competencies for the Board Members as required along with providing recommendations to the Board of Directors in this regard. • Conduct an annual appraisal 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 / Update the Bank's remuneration policy on an annual basis or as per the Central Bank of Kuwait's instructions or based on the Board of Directors' request and provide recommendations to the Board of Directors regarding any amendments/ updates to be made to this policy noting that such amendments / updates may not be enforced unless approved by the Board of Directors. • Assess on annual basis the sufficiency and effectiveness of the remuneration policy to ensure that its related objectives are achieved. • Recommend to the Board of Directors the amount and description of the proposed remunerations of the CEO and his/her deputies & assistants (Top Executive Management Members) • Ensure that the remuneration policy and related practices at the Bank's financial subsidiaries and overseas branches (if any) are consistent with the remuneration policy applicable at the Bank and in line with the Central Bank of Kuwait's instructions on Corporate Governance rules. • Conduct an annual independent review of the remuneration policy noting that this review can be conducted through the Bank's Internal Audit Division or an external advisor.
Key Achievements in 2018	• Appraised the performance of the Board of Directors and performance of each individual Board Member and conducted review of performance appraisal forms. • Managed to conduct regular review of the Bank's remuneration policy before submission to the Board of Directors for approval. • Conducted review on the updates made to the Nomination & Remuneration Committee's bylaws. • Conducted review on the updates made to the nomination criteria for the board membership within the Bank. • Conducted review on the Board of Directors nomination forms for the upcoming term (2018 – 2020) and provided recommendations to the Board of Directors with regard to the nominees. • Conducted review on Internal Audit Department's report on assessment of remuneration policy.

Board Loan Committee	
Composition	• Sheikh / Ahmad Duaij AlSabah – Chairman, BLC • Ms. Anoud Fadel Al Hathran • Mr. Abdulrahman Abdullah AlAli • Mr. Musaed Nuri AlSaleh • Sheikh / Talal Mohammed Al Sabah
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 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 2018	• Managed to review and amend the credit policy. • Managed to review and approve the credit facilities within the limits prescribed by the Board of Directors. • Monitored 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 2018 along with an outline of the frequency of participation by the Board Members in such meetings.

Total Number of Meetings Held During 2018	Board of Directors	BCGC	BRMC	BAC	BNRC	BLC	Total Number of Meetings Attended by Board Members
	20	4	8	11	6	46	95
Board of Directors	Number of Meetings Attended by the Board Members						
Sheikh/Ahmad AlSabah	19	1				43	63
Anoud Al Hathran	9	3				26	38
Abdulrahmn AlAli	17	1	8	1 **		26	53
Bader Al Ahmad	16		3	10	1		30
Musaed AlSaleh	14		3	1 **	4	31	53
Dr. Arshid AlHouri	18			10	5	1 **	34
Hazem Al Khaled	11	1	1 **	4			17
Rasha AlAwadhi	16	4		9			29
Sheikh/Talal Al Sabah	6		3			22	31
Manaf AlMuhanna	12		5	1 **	3	6**	27
Ali Al Mousa*	7					10	17
Mona Al Sarraf*	5		3			8	16
Abdulrazzaq Al Kandari*	4				2	9	15

Remarks:

* A Board Member whose membership term has come to an end following the election of a new Board of Directors for a term of three years (2018 – 2020) in the General Assembly Meeting held on 31/3/2018.

** Alternate Member who was called to replace a committee's member who apologized for not attending the committee's meeting.

- During 2018, the Board of Directors issued (4) decisions by circulation.
- During 2018, the Board Loan Committee issued (7) decisions by circulation.
- During 2018, the Board Nomination & Remuneration Committee issued (1) decision by circulation.

Seventh: Assessment of the Board of Directors’ Performance

In implementation of Corporate Governance rules, the performance of the Board of Directors and all Board Members is appraised on an annual basis. This appraisal is presented to the Board of Directors for review & approval of the same 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 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 Board of Directors approved appropriate organizational structure for the Bank’s business activities with a view to implement the Bank’s strategies & objectives along with enabling the Bank to assume its business activities in compliance with Corporate Governance rules. This organizational structure includes means for overseeing the Bank’s business activities, add to this the functions of Internal Audit, Risk Management and Compliance & Corporate Governance. However, proper identification of the duties, responsibilities and authorities of all units incorporated within this organizational structure should be observed. Furthermore, such structure takes into account the internal control systems that include dual control, segregation of duties & responsibilities, availability of policies & procedures and a description for all related functions.

Within the process of verifying the adequacy and effectiveness of the Bank’s internal control systems to safeguard the Bank’s assets and enhance its financial soundness and operations efficiency, the Board of Directors regularly monitors the policies, controls and internal control functions (such as Internal Audit / Risk Management Division / Compliance & Corporate Governance Division) to identify the areas that require improvement along with determining & addressing risks and significant issues. 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 regular 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. 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 above mentioned 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 2018, the Bank has engaged the audit firm (Protiviti), after obtaining the Central Bank of Kuwait's approval, to assess the Bank's internal control systems for the year 2017. The audit firm's report prepared on 27/6/2018 stated that accounting records and other records and internal control systems of the Bank & its subsidiaries have properly been prepared and maintained in compliance with the requirements of the general guideline manual issued by the Central Bank of Kuwait on 14/11/1996 and the Central Bank of Kuwait's circular dated 17/1/2018 and that the raised findings have no substantial impact on the Group's fair presentation of the financial statements for the year 2017. 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.

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

27 June, 2018

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 5 April 2018. We have examined the accounting and other records and internal control systems of Commercial Bank of Kuwait K.P.S.C.('the Bank') and the following subsidiaries of the bank for the year ended 31 December 2017:

- Al-Tijari Brokerage Company

We covered the following areas of the Bank:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 17 January 2018 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning anti money laundering and combating financing of terrorism and the related instructions, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank and activities 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

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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 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 reports submitted to the Board of Directors of the Bank, and having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2017, and the materiality and risk rating of our findings, we report that:

a) The accounting and other records and internal control systems of the Bank 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 2018.

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 Bank for the year ended 31 December 2017, and

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

Yours faithfully,

Faisal Saqer Al Saqer
License No. 172 (A)
Protiviti Member Firm Kuwait WLL

Tenth: Corporate Values & Ethics

The Bank continues to apply sound Corporate Governance practices and further considers such practices as fundamental principles and significant components of its overall culture. During the year, the Bank has actively endeavored to enhance compliance with the corporate values and raise awareness of all staff members about 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 approved by the Bank's Board of Directors is among the main aspects of Corporate Governance rules. The Board of Directors and Executive Management encourage and promote compliance with the Code of Conduct in the Bank's day-to-day business activities, among its employees and in its business relationships with customers & 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 & internal control functions oversees and verifies that the Code of Conduct is implemented efficiently with a view to identify any mismatches and initiate the necessary actions.

Conflict of Interests

The Bank endeavors to implement Conflict of Interest 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 view of the Bank's business scope and to cope with the developments seen in legislative and 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.

Transactions with Related Parties

The Bank endeavors to conduct all its transactions with related parties on an arm's length basis and under the same terms that are applied to 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 to ensure its consistency with the Bank's business scope and the progress seen in legislative and 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 applies the required controls to ensure maintaining 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 Board approved Whistle Blowing Policy is meant to enhance communication culture to the Bank's employees & others, provide means by which they can be involved in the protection of the Bank and its interests and to establish a mechanism that enable them to communicate any information that may come to their knowledge to the Bank regarding any transaction or behavior within the Bank that are suspected of violating or already violate the laws, regulatory instructions or internal policies or information about any other operations processed in the Bank in a manner that raises certain suspicions or concerns. This policy allows employees to directly communicate with the Chairman regarding such concerns and it also provides protection to those employees.

Eleventh: Remuneration Policy

The Bank has in place a remuneration policy which broadly covers all aspects and components of remunerations at the Bank. This policy is reviewed on an annual basis by the Board Nomination and Remuneration Committee before submission to the Board of Directors for approval. It is to be noted that this policy has been recently updated on 20/11/2018.

Summary on Remuneration Policy

The objectives of Remuneration Policy are as follows:

1. Promote effective governance and sound practices for the financial remuneration system in consistency with risk strategy.
2. Attract and retain highly qualified, skilled and knowledgeable professionals required for performing the banking business.
3. Ensure that financial remuneration is linked to the Bank's performance and Risk Timeline, taking into account the possibility of amending the financial remunerations that may be granted to staff to match risks on the long term.

Important Features of the Remuneration Policy:

1. The Bank adopts remuneration policy that apply to all the employees of the Bank by having in place procedures that would appraise, classify and describe all jobs that should be occupied by the incumbents who have the expertise and skills that commensurate with the said system.
2. The policy takes 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 salary scale and remuneration in the Bank.
3. Remunerations are divided into fixed remunerations which include basic salary & fixed allowances and variable remunerations which include deferred remunerations which may be paid to the staff members over a maximum period of 3 years as per the mechanisms, percentages and categories specified by the Board of Directors and "Claw back" is applied to the latter type of remunerations that can be adjusted or clawed back in exceptional cases such as weak/adverse financial performance of the Bank, in addition to

the annual incentive that may be paid to the staff members after the end of each financial year based on the Bank's financial performance and the staff performance appraisal during this year.

4. As per the Bank's Organizational Structure and Corporate Governance rules, Compliance & Corporate Governance Division, Risk Management Division and Internal Audit Division present their reports to the Board Corporate Governance Committee, the Board Risk Management Committee and the Board Audit Committee respectively. However, and from the management perspective, the three Divisions work with a direct reporting line to the Chairman of the Board who in his turn prepares the performance appraisal of heads of both Compliance & Corporate Governance Division and Risk Management Division while the Board Audit Committee prepares the performance appraisal of the Head of Internal Audit Division. As such, the Executive Management will not have any role in the performance appraisal or promotions or remunerations of the above mentioned heads.

Twelfth: Disclosure of Remunerations for the Year 2018

Board of Directors

Remunerations totaling KD 466,300 have been paid to the Bank's Chairman and the Board Members during the year 2018 in consideration for the tasks assigned to them and which include their participation in the Board Committees' assignments & meetings. The Board of Directors' remunerations are disclosed in the annual financial statements of the Bank.

Executive Management

Remunerations totaling KD 779,238 have been paid to five Top Executives who have received the highest remunerations during the year 2018. The above amount also includes the remuneration paid to the Chief Internal Auditor.

Remunerations based on the Employees' categories

Category	Number	Total Remunerations	Remarks
The officials whose appointment is subject to the Central Bank of Kuwait's approval	8	KD 983,219	Including the CEO, Deputy CEO and Divisions' Heads whose appointment is subject to the Central Bank of Kuwait's approval.
The officials with authorities for taking decisions on the issues related to risk exposures.	12	KD 592,589	Including supervisory positions with authorities in the Bank's business areas such as Corporate Banking Division, Retail Banking Division, Treasury & Investment Division and International Banking Division.
The officials in charge of Financial Control and Risk Management.	15	KD 762,808	Including supervisory positions in Financial Planning & Control Division, Internal Audit Division, Risk Management Division and Compliance & Corporate Governance Division.

• Remunerations include basic salary and allowances such as grade allowance, transport allowance, supplementary allowance and other remunerations (including other allowances and benefits) such as airline tickets, medical insurance, education assistance and terminal gratuity and other remunerations.
• 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 with 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 & systems and the Corporate Governance Manual applicable in the Bank by preparing and completing all byelaws & policies and requirements pertaining to Corporate Governance rules and getting the same approved within the timeframe 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 enhance the effectiveness of the Board's supervision on the Bank's business & activities and also follow up & monitor the implementation of the various requirements of Corporate Governance.
• The Code of Conduct is circulated to the Board Members and all employees of the Bank along with obtaining their signatures for compliance with the content of Code of Conduct.

• The Bank's organizational structure includes means for overseeing the Bank's business activities, add to this the functions of Internal Audit, Risk Management and Compliance & Corporate Governance

• Internal Audit Division, as an independent function from the Executive Management, 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, on an annual basis, to assess the internal control systems and prepare ICR report to be sent to the Central Bank of Kuwait and this report includes the extent of the Bank's compliance with the implementation of Corporate Governance rules & instructions. It is to be noted that the External Auditor's 2017 report has not included any remarks on Corporate Governance rules.

Fourteenth: Executive Committees

The Bank's organizational structure comprises 6 committees which present their reports to the CEO:

1. Credit & Investment Committee

The Credit & Investment Committee is responsible for conducting review of all loan cases & credit & investment proposals, providing recommendations to the Board Loan Committee and taking the required decisions thereon as per the authorities established at the Bank.

2. Assets & Liabilities Committee

The Assets & Liabilities Committee is responsible for taking the required decisions on the balance sheet structure & interest rates along with managing liquidity taking into account all risks involved, along with conducting review of all risk management related reports.

3. Provisioning Committee

The Provisioning Committee is responsible for analyzing & assessing the credit facilities that will be extended to each customer and identifying the required provisions against such credit facilities as per the instructions issued by the regulatory authorities and the related international standards.

4. IT & Operations Committee

The IT & Operations Committee is responsible for establishing the Bank's strategy & policies related to information technology & IT security and ensuring their consistency with the Bank's strategy along with monitoring the required procedures for implementation thereof. The Committee shall be also responsible for supervising, discussing and reviewing the Bank's operational risk related issues.

5. Purchasing & Tender Committee

The Purchasing & Tender Committee is responsible for reviewing the purchasing and deciding on tenders valued at KD 9000 and above before presenting the same to the Bank's Senior Management for approval as per the authorities established in this regard.

6. Management Committee

All the Bank's Divisions /Departments' Heads participate in this Committee. It is responsible for establishing the required coordination mechanisms among all the Bank's divisions / departments to achieve the objectives as contained in the Bank's strategy, business plans and policies. The Committee aims also to ensure that information is communicated & exchanged between the Bank's divisions / departments on one hand and the Executive Management & the Board of Directors and the Board Committees on the other hand.

Fifteenth: Executive Management Team

Elham Yousry Mahfouz
The CEO

Ms. Elham is a banker holding a Bachelor with honor degree in Business Administration 1984 / American University, Egypt. Ms. Elham joined Commercial Bank of Kuwait in the year 2000 as Manager – International Banking and progressively occupied top-executive positions holding the position of GM – New York Branch, Acting GM – International Banking, GM – International Banking in December 2010, Acting CEO during the period from June 2010 until February 2012 and she was promoted as Deputy CEO in April 2012 and was appointed as the CEO of the Bank on 20/11/2014.

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 exceeding 34 years in banking & financial areas.

Sahar Abdulaziz Al-Rumaih
Deputy CEO for Corporate Banking Division & International Banking Division

Ms. Sahar is a banker holding a Bachelor degree in Economy 1988 / Kuwait University and possesses more than 29 year experience in corporate Banking. 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 team, the Bank's corporate banking portfolio. Further, she was assigned, during the period from 9/12/2015 until 30/6/2018, the responsibilities as Acting General Manager – Retail Banking Division in addition to her responsibilities as General Manager - Corporate Banking Division. Ms. Sahar was also assigned, effective from 23/9/2018, the responsibilities of Acting General Manager – International Banking Division and she was recently promoted as Deputy CEO for Corporate Banking Division and International Banking Division.

Masud Ul-Hassan Khalid
Chief Financial Officer - Financial Planning & Control Division

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 has been working with the Bank over the last 27 years in various capacities. He is able to drive the business toward favoring strategies with a strong financial underpinning, possesses soft skills in communication, presentation and workplace relationship building and dedicated to continued professional development. Mr. Masud believes in succession planning and career coaching to improve team performance, and he encourages professional growth through mentoring and skill improvement training.

Hameed Ebrahim Salaman
General Manager – Retail Banking Division

Mr. Hameed obtained a bachelor degree in banking studies – 1996 and a chartered financial marketer – USA. He has over 26 years banking experience in financial management and retail banking services and attended a number of executive management programs in Harvard University – USA and the United Kingdom. He joined Commercial Bank of Kuwait in 2017 as Assistant General Manager – Retail Banking Division and was appointed as General Manager – Retail Banking Division on July 1st 2018. Mr. Hameed has extensive understanding and knowledge of Kuwait market on the back of his work experience with a number of local and regional markets.

Hussain Ali Al Aryan
General Manager – Treasury and Investment Division

Mr. Hussain obtained a bachelor degree with double major in computer science and business administration – marketing from California State University - Sacramento, USA – 1992. He has an extensive banking experience exceeding 25 years in treasury diverse activities and in areas of funding and liquidity management obtained from his work with Kuwaiti banks. He progressively held a number of leading positions through his career path until he joined Commercial Bank of Kuwait on 18 February 2018 as General Manager Treasury Department and on 23 September 2018 he occupied the position of General Manager – Treasury and Investment Division.

Paul Abdoulnour Dawoud
General Manager – Operations Division

Mr. Paul is a banker holding a Bachelor of Business Administration 2006 / Kendi Western - USA. Mr. Paul has 36 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 until 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 – Operations Division, then he was appointed as permanent & confirmed GM – Operations Division commencing from 28/6/2016.

Mohamed Hashem Mohamed
Legal Advisor to the Chairman and General Manager - Legal Division

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 22 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.
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.

Ahmed Mohamed Farahat
Chief Internal Auditor – Internal Audit Division

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 22 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 – Internal Audit Department and was appointed as Chief Internal Auditor – Internal Audit Department on 25/10/2015.

Abhik Goswami
Chief Risk Officer - Risk Management Division

Mr. Abhik held a Bachelor degree in Technology 1989 from Indian Institute of Technology / India and MBA (PGDM 1992) from Indian Institute of Management. He is also a Chartered Financial Analyst (CFA 2004), Charter holder from CFA Institute (USA) and has a Financial Risk Manager (FRM 2002), certification on Enterprise Wide Risk Management from Global Association of Risk Professionals, USA.
Mr. Abhik has 27 years experience in the banking sector, with over 18 years of Credit and Risk Management experience. He has worked with major banks like ICICI Bank and HSBC in India, and National Bank of Bahrain and Ahli United Bank Group in the GCC. Mr. Abhik has joined the Bank in June 21, 2017 as Chief Risk Officer.

Tameem Khalid Al Meaan
General Manager – Compliance and Corporate Governance Division

Mr. Tameem obtained a Bachelor degree in Accounting – Kuwait University in year 2000. He has over 18 years experience in regulatory supervision and compliance gained from his work with the Central Bank of Kuwait and a number of conventional, Islamic and foreign banks. Mr. Tameem joined Commercial Bank of Kuwait on 24 June 2018 as General Manager – Compliance and Corporate Governance Division.

Sadeq Jaffar Abdullah
General Manager – Human Resources Division

Mr. Sadeq obtained a Bachelor degree in Business Administration from Kuwait University – 2004 and a Master degree from Kuwait-Maastricht Business School in 2007. He has over 15 years experience in the Kuwaiti banking sector where he progressively held a number of positions in customer services, financial & strategic analysis then human resources. He joined Commercial Bank of Kuwait in 2016 as Executive Manager – Human Resources Division and from December 2nd 2018 he held the position of General Manager – Human Resources Division.

Bader Mohammed Musleh Qamhieh
Acting GM - ITD

Mr. Bader Qamhieh holds BSC Computer Science in year 2000 / AL ALBAYT University – The Hashemite Kingdom of Jordan and his professional experience exceeds 17 years. He joined the Bank in 2007 as IT Assistant Manager / Information Technology Department. He progressively held a number of positions and was appointed as Acting General Manager - Information Technology Department in February 2017. During his tenure with the Bank, Mr. Bader, with his team, managed to develop and create many systems & software which contributed in developing the Bank's operations and upgrading all e-channels starting from the Core Banking System & Internet Banking and Mobile Banking and developing Contact Center, SMS Banking and smart / chip cards related software. Mr. Bader's achievements were also proven in transforming the over-the-counter transactions in the Bank's branches to self-service.

Sixteenth: Corporate Social Responsibility

Within the Bank's social role that is always accentuated through its ongoing participation in social, humanitarian and philanthropic activities designated to different segments of the society, the Bank, through its Corporate Communications Division, continued its efforts during the year 2018 to demonstrate and highlight the social responsibility programs targeting all society segments.

In this context and during the year 2018, the Bank continued its efforts for enhancing its leading social role to contribute in the sustainable development in the Kuwaiti society by offering sponsorship and support to the diverse social activities & events organized and arranged by civil society institutions, i.e. the six

Governorates of Kuwait. Such cooperation has yielded a great success of the societal activities organized by Kuwait Governorates for their inhabitants under the Bank's sponsorship.

Furthermore, and within the Bank's comprehensive social responsibility programs aiming to assist all society segments, Corporate Communications Division organized a fun day for Khalifa Special Needs School's children in concurrence with the International Day for Persons with Disabilities.

In celebration of National & Liberation Days, the Bank illuminated & decorated its Head Office and branches to reflect celebration of such auspicious occasions. Further, the Bank arranged visits to security & traffic officers and distributed gifts to them in recognition of their efforts and important role in facilitating traffic flow in the Arabian Gulf Street. As a new gesture aiming to share Kuwait and nationals their celebration of the National Days, the Bank's Corporate Communications Division Team was present in Kuwait International Airport (Arrivals) to welcome the visitors during such occasions with flower bouquets and commemorative gifts presented to them.

Moreover, and within its support for the awareness activities & campaigns organized by Ministry of Interior, the Bank offered support to the Unified GCC Traffic Week 2018 which was held under the caption “Your Life is Trust”.

Within the humanitarian & philanthropic activities in the Holy Month of Ramadan and as a new gesture from the Bank, Corporate Communications Division patronized a number of humanitarian & philanthropic activities. As such, the Bank distributed pre-dawn light meals (snacks) “suhoor” to the prayers at the Grand Mosque in cooperation with Kuwait Food Bank on the 27th night of Ramadan.

“Hawwen Alaihom” Campaign targeting road cleaners & construction workers continued in 2018. In this context, the Bank continued to provide support & care for this category along with arranging visits in different occasions for road cleaners & construction workers at their work locations in recognition of their efforts in preserving the environment and keeping it clean and clear of litters. With the advent of the Holy Month of Ramadan and for the third year in row, the Bank launched its campaign "Your Pre-Dawn Meal from the Bank / Suhoorkom Alina" for distributing pre-dawn meals "suhoor" to road cleaners and construction workers.

Within its consolidated efforts towards environment conservation and raising awareness on its importance, the Bank organized Beaches Cleanup Campaign in cooperation with the Green Hands Environmental Team. This Campaign was meant to keep beaches clean and free of waste & debris and protect them against any harmful acts and get all society segments aware of the importance of preserving the environment.

Following the great success of “Ya Zeen Turathna” Campaign during the previous years and the interaction of the public with its activities, the Bank, for the seventh consecutive year, launched its heritage revival campaign which became closely correlated with the Bank's name.

The Bank also continued to issue annual calendar which contained various scenes that depicted Kuwaiti life in the sixties of the last century, an era that is regarded as one of the most prosperous periods in the history of Kuwait, noting that Al-Tijari calendar remains as an inexhaustible reference.

The Bank's Corporate Communications Division constantly endeavors to activate all means of communication with its customers and the public via social media networks (Instagram, Facebook, Twitter and Snapchat). However, and through such social media networks, the Bank initiated some health awareness tips about other events & activities in addition to its communication with its customers in social occasions and other events.

The Bank always emphasizes and demonstrates its leading role towards society servicing as a caring financial institution which contributes in sustainable development by supporting and patronizing the diverse social activities that benefit all society segments.

Seventeenth: Management Discussion and Analysis (MD&A)

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

In this context, the Management believes that Commercial Bank of Kuwait remains a financially stable institution, with sound asset quality, strong income growth potential, strong capital base and high liquidity.

A summary of the Bank's financial position is presented below. The MD&A should be read in conjunction with our consolidated financial statements for the year ended 31st December, 2018. All amounts are stated in Kuwaiti Dinars and have been derived from consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The bank prospectively adopted IFRS 9, Financial Instruments (IFRS 9). Prior periods have not been restated.

Financial Objectives

Bank's medium-term financial objectives for certain important performance measures are set out below. These objectives establish a range of expected performance over time. We believe we will deliver top-tier total shareholder return and meet our financial objectives by aligning our operations with, and executing on, our strategic priorities.

Bank's business planning process is rigorous, sets ambitious goals and considers the prevailing economic conditions, our risk appetite, our customers' evolving needs and the opportunities available across our lines of business.

Our medium-term financial objectives are to achieve average annual return on equity (before provision) greater than 15.0% and maintain capital ratios that exceed regulatory requirements. These objectives are guideposts as we execute against our strategic priorities. In managing our operations and risk, we recognize that current profitability and the ability to meet these objectives in a single period must be balanced with the need to invest in our businesses for their future long-term health and growth prospects.

Fundamental Strengths

Diversified businesses that continue to deliver robust earnings growth and long-term value for shareholders
Strong foundation built for growth and differentiating strengths that drive competitive advantage:
Well-established, flagship banking business in Kuwait
Diversified operations well positioned to capture growth opportunities
Transformative technology architecture, data and digital capabilities delivering customer and business value
Well-capitalized with an attractive dividend yield
Creating sustainable efficiency and reinvestment capacity through resource optimization, simplification and innovation
Leading employee engagement and culture of unity

Balance sheet

Maintaining a strong balance sheet is foundational to our long-term success. Our goal is to maintain strong capital ratios that comfortably exceed regulatory targets. We look to constantly balance our objectives of holding a prudent amount of excess capital for unexpected events and environmental uncertainties, at the end of 2018, our Basel III CET1 ratio on an all-in basis was 17.5%, well above the current all-in regulatory target set by the Central Bank of Kuwait. We remain focused on asset quality and a strong funding profile as key underpinnings of a strong and stable balance sheet.

Total assets at KD 4.5 billion are higher by 1.7% compared to last year. Loans and advances represent 50.4% of total assets, investment securities 12.3% and Central Bank bills & bonds are 7.4%. The loan and advances at KD 2.4 billion is mainly comprised of commercial loans with 27.9% concentrated in the real estate & construction sector and 28.7% concentrated in trade and commerce sector. Retail loans are 19.3% of the total loans mainly comprised of personal loans. The investment securities consist of debt securities 56.0% and equity portfolio of 44.0%. It is worth mentioning that the Bank has achieved an exceptional mile stone of zero non-performing loans.

The total liabilities of KD 3.7 billion include customer deposits of KD 2.3 billion. The effort to diversify the sources of funds and arrangement of long term funds to enhance the stable sources of fund continued during the year and the Bank successfully achieved both the targets. Total shareholders' equity increased from KD 654.2 million to KD 729.0 million, a growth of 11.4%.

Income Statement

The operating income grew for the year 2018 was KD 150.9 million is mainly comprised of net interest income KD 93.9 million, fees and commission KD 40.8 million, foreign exchange income KD 7.1 million and dividend income of KD 4.8 million Loans amounting to KD 112.9 million were written off during the year while recovery against previously written off loans amounted to KD 78.5. The net profits increased from KD 55.4 million (EPS 30.8 fils) to KD 63.8 million (EPS 35.4 fils). The Corporate and Retail banking activities are the main source of Bank's revenue. Expense management continues to be one of the Bank's strengths; the cost to income ratio at 29.7% is one of the lowest in the industry.

Capital adequacy & other Basel III ratios

The Bank's capital adequacy ratio of 18.67, LCR 156.0%, NSFR 115.7% and leverage ratio 11.8% are well above the Central Bank of Kuwait's stipulated requirements.

Review of historical performance

The Bank's operating profit before provisions has been stable over the last five years despite the prevailing geo political crisis in the region and volatile oil prices. The Bank also achieved a consistent growth in the net profitability during this period. The most of the Bank's operations are locally concentrated to make up 76.0% of total assets of the Bank. The growth in assets has been moderate during this period as the Bank continued to focus on qualitative factors rather than quantitative indicators.

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 11 billion in 2017 and USD 6 billion in 2018. Consequently, credit growth remained healthy at 2.9% y-o-y as at Nov 2018, 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 four times during 2018. The local commercial banking industry in 2018 saw a challenging operating environment with the returns not increasing commensurately to the increase in cost of funds.

The year 2018 saw improvement in global oil prices with an average price of USD 68 per barrel however, the price declined during the last quarter with the year closing at USD54 per barrel. Kuwait has strong fiscal position 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 strong 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 2018 saw a move towards normalisation with ECB ending its Quantitative Easing (QE) programme and the US Fed increasing interest rates four times during 2018 after tapering down its QE programme. While the US growth is on a recovery path, the European Union continues to witness negative interest rates.

From a growth perspective, China and India remained the drivers of global growth although the Chinese economy is showing weaknesses. The Chinese economy, which grew at 6.6% in 2018, is forecasted to grow at 6.0% in 2019 and 2020. 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. In India, the 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, with World Bank forecasting a growth of 7.4% and 7.3% in 2019 and 2020, respectively.

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 slowdown in global growth and the volatility of oil prices are major concerns for the global economy in general and Middle East economies in particular. Oil prices have bottomed out and have moved higher and are expected to move further up but not sharply. With Europe struggling with Italian Debt and Brexit, US growth constrained by higher interest rates and ebbing fiscal stimulus/tax cuts and China facing economic rebalancing and US tariffs, global growth is expected to slowdown in 2019.
The overall environment necessitates that banks implement robust risk monitoring and mitigation measures to safeguard their portfolio and profitability. 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 appropriate measures.

The Bank has a set of strategy parameters in place, broadly comprising macro-economic parameters, internal variables, solvency, credit risk, liquidity risk, operational risk and interest rate risk indicators, and has been constantly monitoring the same, along with key macroeconomic variables, in order to identify any 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 in turn is dependent, to a major extent, on oil prices as Oil revenue forms a major component of the overall GDP. Based on broadly stable range of oil prices, 2019 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 not only for our Bank but for all Banks in Kuwait.
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 spill over 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 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 sectors' exposure in its lending portfolio but increased the share of Contracting, Manufacturing and Trade. Concentration risk in the Bank's balance sheet 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 current risk strategy for 2017-2019 was finalised taking into account the operating environment as well as the challenges.

Idiosyncratic risks

Asset quality

The Bank's emphasis on qualitative factors and cautious growth strategy has yielded its benefit and currently non-performing loans are zero.

Operational risks

The Bank recognises the operational risk issues which are identified from the incidents reported, operational loss data collected, and through conducting Risk and Control Self Assessments for all Bank divisions. Risk and Control Self Assessments have been conducted for all high and medium risk areas during 2018. Significant improvements have been seen in resolving earlier identified operational risks and strengthening of operational controls. The Operational Risk Committee oversees the assessment of operational risks and follows up on creation and monitoring of adequate controls to mitigate these risks.

The Bank has also put in place a Key Risk Indicator (KRI) frame work for setting up, collecting and monitoring the KRIs from different business/non-business areas. Operational Risk Department also performs a Business Impact Analysis to identify and assess annually the business critical processes, and conducts annual Business Continuity Tests to ensure the Business Continuity Plans are up to date and implemented with efficiency.

Financial Review

Statement of Income

• Net interest income

Net interest income is comprised of earnings on assets, such as loans and securities less interest expense paid on liabilities, such as deposits. Net interest income of KD 93.9 million is marginally higher than KD 93.6 million of last year. The average yield on interest earning assets increased to 3.5% from 3.4% of last year. The average cost on interest bearing liabilities also increased from 1.1% to 1.4% during 2018. Bank's overalll net interest margin of 2.3% decreased by 9 basis points due to increased cost of borrowing resulting from multiple times increase in rates by Fed.

• Non-interest income

Non-interest income of KD 57.1 million which comprises all revenues other than net interest income didn't grow at over all level; however, the foreign exchange gains of KD 7.1 million had an exceptional increase of 78.6% during 2018. Last year included KD 4.3 million gains on sale of investment securities while this year gains are not routed through income statement due to implementation of IFRS 9.

• Non-interest expenses

Staff expenses of KD 24.0 million were lower by 10.9% compared to 2017; last year included one off charge due to the changes in the labour law. General and administration expenses of KD 20.6 million for 2018 were higher by 5.6%.

• Impairment and other provisions

The charge for Impairment and other provisions of KD 39.4 million is lower by KD 6.9 million compared to 2017. The impairment and provision charge is net of recoveries KD 78.5 million against previously written off loans. The provision reserve at year end 2018 is KD 142.2 million while Non-performing loans are zero.

• Net Profit

The net profit of KD 63.8 million attributable to shareholders of the Bank was 15.0% higher than KD 55.4 million for 2017. Earnings per share were 35.4 fils compared to 30.8 fils for the last year.

Balance Sheet

Total assets of KD 4,467.6 million increased by KD 73.0 million over last year. The Investment securities increased by KD 90.0 million and Loans and advances net of provisions increased by KD 16.5 million.

The customer deposits increased by KD 87.7 million while the deposit from financial institutions decreased by KD 135.6 million.

Equity attributable to shareholders of the Bank of KD 729.0 million increased by KD 74.8 million (11.4%) compared to 2017.

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 (KD 63.8 million) for the year attributable to shareholders of the Bank will be distributed as follow:

1. Cash dividend of 20 fils per share (2017: 18 fils) KD 36.0 million
2. Bonus share of 10 shares for every hundred shares (2017: 10 shares) KD 18.1 million
3. KD 9.7 million transfer to retained earnings.

Consolidated Financial Information

31 December 2018

And Independent Auditors' Report to the Shareholders

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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 2018,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 2018, 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 Auditors' 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
The recognition of credit losses on loans and advances to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision ("the CBK rules") as disclosed in the accounting policies to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a new and complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter.

Our audit procedures included assessing the design and implementation of controls over inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group to determine ECL. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

Other information included in the Annual Report of the Group for the year ended 31 December 2018

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 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,on the other information that we obtained prior to the date of this auditor's report, 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

• Identify and assess the risks of material misstatement of the 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 auditors' 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 auditors' 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, as amended, 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, as amended, 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 2018that 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 2018 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. 91A RSM Albazie & Co.

13 January 2019
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2018

ASSETS	Note	2018 KD 000's	2017 KD 000's
Cash and short term funds	3	**858,825**	509,202
Treasury and Central Bank bonds	4	**331,747**	493,542
Due from banks and other financial institutions	5	**370,366**	569,308
Loans and advances	6	**2,253,070**	2,236,527
Investment securities	7	**548,788**	458,774
Premises and equipment		**28,522**	28,996
Intangible assets	9	**3,506**	3,506
Other assets	10	**72,721**	94,731
TOTAL ASSETS		**4,467,545**	4,394,586
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**347,100**	313,669
Due to other financial institutions		**880,881**	1,016,491
Customer deposits		**2,291,890**	2,204,211
Other borrowed funds		**57,675**	37,750
Other liabilities	11	**160,142**	167,445
TOTAL LIABILITIES		**3,737,688**	3,739,566
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital		**181,096**	164,633
Proposed bonus shares		**18,110**	16,463
Treasury shares		**(4,578)**	(4,578)
Reserves		**314,327**	273,515
Retained earnings		**184,093**	174,724
		693,048	624,757
Proposed dividend		**35,976**	29,435
		729,024	654,192
Non-controlling interests		**833**	828
TOTAL EQUITY	12	**729,857**	655,020
TOTAL LIABILITIES AND EQUITY		**4,467,545**	4,394,586

Sheikh Ahmad Duaij Jaber Al Sabah
Chairman

Elham Y. Mahfouz

Elham Yousry Mahfouz
Chief Executive Officer

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2018

	Note	2018 KD 000's	2017 KD 000's
Interest income		**143,771**	133,339
Interest expense		**(49,914)**	(39,750)
NET INTEREST INCOME		**93,857**	93,589
Fees and commissions		**40,804**	40,326
Net gain from dealing in foreign currencies		**7,149**	4,002
Net gain from investment securities		**156**	4,318
Dividend income		**4,753**	4,551
Loss on disposal of assets pending sale		**(106)**	-
Other operating income		**4,314**	4,162
OPERATING INCOME		**150,927**	150,948
Staff expenses		**(24,007)**	(26,938)
General and administration expenses		**(20,569)**	(19,474)
Depreciation and amortisation		**(291)**	(162)
OPERATING EXPENSES		**(44,867)**	(46,574)
OPERATING PROFIT BEFORE PROVISIONS		**106,060**	104,374
Impairment and other provisions	13	**(39,390)**	(46,258)
PROFIT BEFORE TAXATION		**66,670**	58,116
Taxation	14	**(2,900)**	(2,616)
NET PROFIT FOR THE YEAR		**63,770**	55,500
Attributable to:			
Shareholders of the Bank		**63,751**	55,432
Non-controlling interests		**19**	68
		63,770	55,500
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	15	**35.4**	30.8

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 KD 000's	2017 KD 000's
Net profit for the year	**63,770**	55,500
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to consolidated statement of income		
Equity securities classified as fair value through other comprehensive income:		
Net changes in fair value	**43,557**	-
Property revaluation loss	**(516)**	(658)
Items that are or may be reclassified subsequently to consolidated statement of income		
Investment securities - available for sale:		
Net changes in fair value	**-**	21,555
Net (loss) on disposal / impairment of investment securities	**-**	(2,056)
Debt securities classified as fair value through other comprehensive income:		
Net changes in fair value	**(2,449)**	-
Net (loss) on disposal transferred to income statement	**(4)**	-
	40,588	18,841
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**104,358**	74,341
Attributable to:		
Shareholders of the Bank	**104,340**	74,281
Non-controlling interests	**18**	60
	104,358	74,341

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	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 2017	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
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(658)	19,507	18,849	55,432	-	74,281	60	74,341
Issue of bonus shares	14,967	(14,967)	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	(838)	-	-	-	-	-	-	-	-	-	(838)	-	(838)
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(22,330)	(22,330)	-	(22,330)
Proposed dividend (note 12(g))	-	-	-	-	-	-	-	-	-	-	(29,435)	29,435	-	-	-
Proposed bonus shares (note 12(g))	-	16,463	-	-	-	-	-	-	-	-	(16,463)	-	-	-	-
Balance as at 31 December 2017	**164,633**	**16,463**	**(4,578)**	**66,791**	**115,977**	**17,927**	**-**	**24,624**	**48,196**	**273,515**	**174,724**	**29,435**	**654,192**	**828**	**655,020**
Transition adjustment on the adoption of IFRS 9 at 1 January 2018 (note 2(o))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**223**	**223**	**(296)**	**-**	**(73)**	**-**	**(73)**
Restated balance at1 January 2018	**164,633**	**16,463**	**(4,578)**	**66,791**	**115,977**	**17,927**	**-**	**24,624**	**48,419**	**273,738**	**174,428**	**29,435**	**654,119**	**828**	**654,947**
Total comprehensive (loss) income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(516)**	**41,105**	**40,589**	**63,751**	**-**	**104,340**	**18**	**104,358**
Issue of bonus shares	**16,463**	**(16,463)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(29,435)**	**(29,435)**	**(13)**	**(29,448)**
Proposed dividend (note 12(g))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(35,976)**	**35,976**	**-**	**-**	**-**
Proposed bonus shares (note 12(g))	**-**	**18,110**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,110)**	**-**	**-**	**-**	**-**
Balance as at 31 December 2018	**181,096**	**18,110**	**(4,578)**	**66,791**	**115,977**	**17,927**	**-**	**24,108**	**89,524**	**314,327**	**184,093**	**35,976**	**729,024**	**833**	**729,857**

Investment valuation reserve includes a loss of KD 5,450 thousand (31 December 2017: loss of KD 5,420 thousand) arising from foreign currency translation of the Bank's investment in its associate.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 KD 000's	2017 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		**66,670**	58,116
Adjustments for:			
Impairment and other provisions	13	**39,390**	46,258
Income from investment securities		**(4,909)**	(8,869)
Foreign exchange loss (gain) on investment securities		**7,555**	(2,674)
Depreciation and amortisation		**291**	162
Profit before changes in operating assets and liabilities		**108,997**	92,993
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		**161,795**	(163,972)
Due from banks and other financial institutions		**199,503**	(95,663)
Loans and advances		**(56,941)**	33,290
Other assets		**21,952**	(4,766)
Due to banks		**33,431**	(52,303)
Due to other financial institutions		**(135,610)**	213,606
Customer deposits		**87,679**	(17,421)
Other liabilities		**(11,109)**	(2,395)
Net cash from operating activities		**409,697**	3,369
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		**117,220**	62,160
Acquisition of investment securities		**(172,191)**	(101,382)
Dividend income from investment securities		**4,753**	4,551
Proceeds from disposal of premises and equipment		**-**	1
Acquisition of premises and equipment		**(333)**	(378)
Net cash used in investing activities		**(50,551)**	(35,048)
FINANCING ACTIVITIES			
Other borrowed funds		**19,925**	7,120
Purchase of treasury shares		**-**	(838)
Dividend paid		**(29,435)**	(22,330)
Dividend paid to non-controlling interest		**(13)**	-
Net cash used in financing activities		**(9,523)**	(16,048)
Net increase (decrease) in cash and short term funds		**349,623**	(47,727)
Cash and short term funds as at 1 January		**509,202**	556,929
Cash and short term funds as at 31 December	3	**858,825**	509,202

The attached notes 1 to 23 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 Boursa Kuwait. 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 consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors on 13 January 2019 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 21.

2- SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK). These regulations require adoption of all International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) except for the measurement and disclosure requirements of expected credit losses (ECL) on credit facilities under IFRS 9: Financial Instruments. Accordingly, provision for credit losses on credit facilities is the higher of ECL under IFRS 9, determined in accordance with the CBK guidelines, and the provisions required by the CBK rules on classification of credit facilities and calculation of their provisions (the CBK Rules).

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, investment securities and freehold land.

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

The accounting policies applied are consistent with those used in the previous year except for the adoption of following IFRSs effective from 1 January 2018.

Standards issued and effective:

i) IFRS 9: Financial Instruments

The Group has adopted IFRS 9: Financial Instruments effective from 1 January 2018. IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 is recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in note 2(o).

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

a) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Group's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in note 2(d)(i)

The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for financial liabilities.

b) Impairment of credit facilities and other financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, debt securities at FVOCI, loan commitments and financial guarantee contracts but not to equity securities. The Group is also required to calculate provision for credit losses on credit facilities in accordance the CBK rules in respect of the classification of credit facilities. Impairment of credit facilities shall be recognised at the higher of ECL under IFRS 9, determined in accordance with CBK guidelines, and the provisions required by the CBK rules. The Group's accounting policies for the impairment of financial assets under IFRS 9 is explained in note 2(ix)

c) Hedge accounting

The Group has adopted new hedge accounting model as per IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with the risk management objective and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. The Group accounts for them using hedge accounting principles, provided certain criteria are met.

ii) IFRS 15: Revenue from Contracts with customers

The Group has adopted IFRS 15 "Revenue from contracts with customers" effective from 1 January 2018. This standard supersedes IAS 11: Construction Contracts and IAS 18: Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The adoption of this standard did not result in any change in accounting policies of the Group and did not have any material effect on the Group's consolidated financial statements.

Other amendments to standards which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective:

i) IFRS 16: Leases

In January 2016, the IASB issued IFRS 16: Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group had assessed the impact of IFRS 16 on its consolidated financial statements and found it to be insignificant.

Other new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2019 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant 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 16) 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 policies 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 recognises the amount in the consolidated statement of income.

(d) Financial instruments

Financial instruments comprises of financial assets and financial liabilities.

i) Classification and measurement

Policy applicable from 1 January 2018

Financial assets

Classification and measurement category of all financial assets, except equity securities and derivatives, is based on a combination of the Group's business model for managing the assets and the assets’ contractual cashflow characteristics.

a) Business model assessment

The Group determines its business model at the level that best reflects how it manages various groups of financial assets to achieve its business objective and generates contractual cash flows. That is, whether the Group’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of financial assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of ‘Sell’ business model and measured at FVTPL. The Group’s business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

i) How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group’s' key management personnel;
ii) The risks that affect the performance of the business model (and the financial assets held within that

business model) and, in particular, the methodology adopted to manage those risks;

iii) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

iv) The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

b) Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

i) Contingent events that would change the amount and timing of cash flows;

ii) Leverage features;

iii) Prepayment and extension terms;

iv) Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

v) Features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at FVTPL.

Based on assessment of business model and cashflow characteristics, the Group classifies financial assets into the following categories upon initial recognition:

a) Financial assets carried at amortised cost

b) Financial assets carried at fair value through other comprehensive income (FVOCI)

c) Financial assets carried at fair value through profit or loss (FVTPL)

a) Financial assets carried at amortised cost

A financial asset is carried at amortised cost if it meets both of the following conditions:

a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b) its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and ECL charges are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

b) Financial assets carried at FVOCI

i) Debt securities at FVOCI

A debt securities is carried at FVOCI if it meets both of the following conditions:

a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Debt securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in consolidated other comprehensive income and presented in the cumulative changes in fair values as part of equity until the financial asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in consolidated other comprehensive income is reclassified from equity to the consolidated statement of income.

ii) Equity securities at FVOCI

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity securities as at FVOCI if they meet the definition of equity under IAS 32: Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Equity securities at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in consolidated other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in consolidated other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividend income on equity securities at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in consolidated other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

c) Financial assets carried at FVTPL

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of income when the right to the payment has been established.

The Group financial assets are classified and measured as follows:

a) Cash and short term funds

Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days. Cash and short term funds are carried at amortised cost using effective interest rate method.

b) Treasury and Central Bank bonds

Treasury and Central Bank bonds are carried at amortised cost using effective interest rate method. These are bought from and sold to the CBK as part of the Group's liquidity management.

c) Due from banks and other financial institutions

Deposits with banks are carried at amortised cost using the effective interest method. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

d) Loans and advances

Loans and advances are stated at amortised cost using the effective interest method. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

e) Investment securities

The Group's investment securities consists of debt securities, equity securities and other investments. Debt securities that meet SPPI Criteria are classified either at amortised cost or at FVOCI based on the business model in which these securities are managed.

Equity securities are generally carried at FVTPL except for those specific intruments for which the Group has made an irrevocable election to classify at FVOCI on date of initial application of IFRS 9 or on initial recognition.

Other investments that does not meet SPPI criteria are carried at FVTPL.

Policy applicable before 1 January 2018

Financial instruments comprised of "financial assets" and "financial liabilities. The Group classified its financial assets as "at fair value through profit or loss", "held to maturity", "loans and receivables" and "available for sale". Financial liabilities are classified as "other than at fair value through profit or loss".

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

All financial assets were initially recognised at its fair value plus transaction costs that were directly attributable to the acquisition of the financial asset, except for financial assets classified as "at fair value through profit or loss ". Management determined the appropriate classification of each instrument at the time of acquisition.

a) 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.

b) At fair value through profit or loss (FVTPL)

Financial assets at FVTPL" were further divided into two sub categories: "held for trading" and "designated at FVTPL at inception". A financial asset was classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets were designated by management upon initial recognition "as at FVTPL", if they were 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 were categorised as "held for trading" unless they are designated as hedging instruments. Financial assets "at FVTPL " were subsequently remeasured at fair value and gains or losses arising from changes in fair value were included in the consolidated statement of income.

c) 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 were subsequently remeasured and carried at amortised cost, less any provision for impairment.

d) Loans and receivables

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

e) Available for sale

These were non-derivative financial assets not included in any of the above classifications and were 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 were subsequently remeasured and carried at fair value.

Any resultant unrealised gains and losses arising from changes in fair value were 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 were transferred to the consolidated statement of income.

f) Financial liabilities

Financial liabilities were classified as "other than at fair value through profit or loss". These are subsequently measured at amortised cost using the effective yield.

Financial liabilities carried on the consolidated statement of financial position includes due to bank and other financial institutions, customer' deposits, other borrowed funds and certain balance included in other liabilities.

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 recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised 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

a) when the contractual rights to the cash flows from the financial asset expire or;
b) when the Group has transferred substantially all the risks and rewards of ownership or;
c) 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.

Modified loans and advances

Under certain circumstances, the Group renegotiates or modifies terms of loans and advances. This may involve extending the repayment period, providing concession in rate etc. If the modifications are substantial, such a facility is dereognized and new facility is recognized with substantially different terms and conditions. 12 months credit losses is recognized on the new facility, except when the new facility is considered as originated credit impaired. When loans and advances have been modified but not derecognized, an impairment is measured using effective interest rate. Management continuously reviews modified loans and advances to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been a significant increase in credit risk or the facility should be classified as stage 3.

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

iii) Derivative financial instruments and hedge accounting

The Group has adopted new hedge accounting model as per IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with the risk management objective and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. 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 cashflow 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 or loss is transferred to the consolidated statement of income.

If a derivative contract does not qualify for hedge accounting as per the hedge accounting rules of the Group, 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 statement of financial position. The resultant gains and losses are included in the consolidated statement of income.

iv) Financial guarantee

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) 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.

vi) 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 of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

vii) 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.

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 securities 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 securities 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:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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 consolidated statement of financial position 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.

viii) Amortized 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.

ix) Impairment of financial assets

Policy applicable from 1 January 2018

The Group computes provision for credit losses on the following financial instruments that are not measured at FVTPL:

a) Loans and advances, financial guarantee and loan commitments (Credit facilities)
b) Debt securities measured at amortised cost or at FVOCI
c) Balances and deposits with banks

Equity securities are not subject to expected credit losses.

As per CBK guidelines, provision for credit losses on credit facilities to be recognised is higher of the followings;

a) Provision for credit losses computed as per the CBK's IFRS 9 guidelines (ECL) or;
b) Provision for credit losses computed based on the CBK's rules on credit facilities

a) Expected credit loss (ECL)

The Group applies a three stage approach to measure the ECL as follows:

i) Stage Classification

Financial instruments are classified into stage 1, 2 or 3 based on assessment of increase in credit risk since initial recognition.

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers quantitative, qualitative information, backstop indicators, analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information.

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds including categorisation of credit facilities as investment and non investment grade. For details on categorisation of credit facilities please refer note 19(d).

The above quantitative criteria are further subjected to the following minimum thresholds as stipulated by the CBK in respect of credit facilties.

a) Credit facilities are classified under Stage 2 where there has been a default in principal or interest payment for more than 30 days.

b) Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities, with Investment Grade rating and by 1 grade with Non-Investment Grade rating.

c) All rescheduled credit facilities are classified under the Stage 2 unless it qualifies for Stage 3 classification

Stage 1: 12-month ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposure that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "Investment grade".

Stage 2: Life time ECL - not credit impaired

When a credit facility has shown a significant increase in credit risk since origination, but is not credit impaired, the Group records an allowance for the life time ECL.

Life time ECL, is ECL that result from all possible default events over the expected life of a financial asset. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date.

In order to estimate life time ECL the following minimum maturity thresholds, as stipulated by CBK were applied for credit facilities.

Facility Type	Minimum Maturities
Corporate credit facility, except that have cash flows and non extendable maturity provided that the final repayment does not constitute more than 50% of the total facility	7 Years
Consumer credit and credit cards	5 Years
Housing finance	15 Years

Both life time and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial assets.

Stage 3: Life time ECL - Credit impaired

When a credit facility is impaired, the Group measures loss allowances at an amount equal to the net exposure (asset balance net of eligible collateral value). A credit facility is considered as credit-impaired, when any payment of principal or interest is overdue by more than 90 days or there are any objective evidence of impairment such as difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc.

ii) Measurement of ECLs

ECL are the discounted product of Probability of Default, Exposure at Default and Loss Given Default.

a) Probability of Default (PD) estimation

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over next 12 months (12M PD), or over the remaining lifetime (lifetime PD) of the obligation.

The Group's PD estimation for corporate credit facilities is based upon obligor risk rating, internal default and macro-economic data. Under macro-economic data, three scenarios (a base case, upside case, and a downside case) have been considered. While, for the PD estimation of retail credit facilities, the facilities were segmented into pools that share the similar risk characteristics.

The Group has applied the minimum PD thresholds as per CBK guidelines of 100 bps (1%) for all credit facilities rated below investment grade and 75 bps (0.75%) for facilities rated as investment grade or better. However, minimum PD threshold was not applied for the following;

i) Consumer credit facility (excluding credit card), housing financing.
ii) Credit facility extended to governments and banks rated as investment grade or better by eligible external credit rating agency.

b) Exposure at Default (EAD)

EAD represents the expected exposure in the event of default. The Group derives the EAD from current credit exposure of the financial assets and potential changes to the current amounts allowed under the contract including amortization. The EAD of financial assets is the gross carrying amount plus interest.

EAD for financial unfunded facility is calculated by applying 100% credit conversion factor (CCF). EAD for unutilized balance is computed by applying CCF as per the financial leverage ratio instructions issued by CBK on 21 October 2014.

c) Loss Given Default (LGD)

The LGD represents expected credit loss in the event of default, its expected value when realized and the time value of money. For credit facilities the internal LGD estimation of the Group is used if it is higher than the minimum LGD as per CBK guidelines. The LGD models also considers minimum haircut to the collateral values as per CBK guidelines.

Incorporation of forward looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

b) Provision for credit losses computed based on the CBK's rules on credit facilities

CBK's rule on provision for credit facilities stipulates two tier approach for credit loss estimation. Total credit loss to be recognised is sum of general and specific provision.

i) General provision

General provision computed as 1% of outstanding cash facility balance and 0.5% of outstanding non cash facility balance after netting off certain restricted categories of collateral.

ii) Specific provision

Specific provision is calculated by applying a loss percentage to the exposure amount after netting off eligible collateral. Loss percentage to be applied is based on past due days as shown below.

Past Due Days	Loss%
> 90 days < 180 days	20%
>180 days <365 days	50%
>365 days	100%

Credit facilities are classified in above categories when there is an objective evidence of impairment based on specified criteria, including management judgement of increase in credit risk.

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets, that are carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in consolidated statement of other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in the other liabilities.

Policy applicable before 1 January 2018

i) Financial assets carried at amortized cost

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:

(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:
i) there are no credits in the account for the last six months even if the outstanding is within the overdraft limit.
ii) 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 recognised 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 recognised 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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 recognises this cost as an expense of the year and represents the amount payable to each employee as a result of involuntary termination on the reporting date. 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 judgements and estimates

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

Judgments

Classification of financial assets - applicable from 1 January 2018

The Group determines the classification of financial assets, except equity securities and derivatives, based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Accordingly, on acquisition of a financial asset, The Group decides whether it should be classified as at FVTPL, FVOCI or amortized cost. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets with in that business model are realised differently than the original expectations. Refer note 2(d)(i) classification of financial assets for more information.

Classification of financial assets - applicable before 1 January 2018

On acquisition of financial asset, the Group decided 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 followed the guidance of IAS 39 in classifying its assets.

The Group classified investments as "at fair value through statement of income" if they were acquired primarily for the purpose of selling in the short term or if so designated by management upon initial recognition when they were managed and their performance was evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. All other investments were classified as "available for sale".

Impairment loss on loans and advances and other financial instruments – applicable after 1 January 2018

The Group estimates ECL for all financial assets carried at amortized cost or FVOCI except for equity instruments. Significant judgment are required in applying the accounting requirements for measuring ECL For information on significant judgement and estimates made by the Group refer note 2(ix).

Impairment loss on loans and advances and other financial instruments – applicable before 1 January 2018

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.

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, 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:

Provision for credit losses - Applicable from 1 January 2018

The Group estimates ECL for all financial assets carried at amortised cost or at FVOCI except for equity securities. The determination of ECL involves significant use of external and internal data and assumptions. Refer note 2(ix) impairment of financial assets for more information.

Applicable before 1 January 2018

The Group treated "available for sale" equity investments as impaired when there had 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.

Valuation of unquoted equity securities

Valuation techniques for unquoted equity 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 impairment loss for loans and advances, investment in debt securities and fair values of unquoted equity securities.

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.

(o) Presentation of comparative

As permitted by IFRS 9, the Group is not restating comparatives on initial application. This transition note provides a reconciliation of the net carrying amount of financial assets as at 31 December 2017 to the remeasured net carrying amount as at 1 January 2018, together with a summary of the impact on the consolidated financial statement of financial position of the changes introduced by IFRS 9.

Impact on opening investment valuation reserve and retained earnings

	KD 000's	
	Investment valuation reserve	Retained earnings
Closing balance as at 31 December 2017 under IAS 39	48,196	174,724
Impact on recognition of ECL		
ECL under IFRS 9 for debt securities at FVOCI	223	(223)
ECL under IFRS 9 for debt securities at amortised cost	-	(73)
Opening balance as at 01 January 2018 under IFRS 9	48,419	174,428

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Impact on classification and measurement of financial assets

The following table shows the original measurement category under IAS 39 and new measurement category under IFRS 9 for each class of Group's financial assets as at 1 January 2018.

Class of financial assets	Original Classification under IAS 39	New Classification under IFRS 9	Original Carrying amounts Under IAS 39 KD 000's	New carrying amount under IFRS 9 KD 000's
Cash and short term funds	Loans and receivables	Amortised cost	509,202	509,157
Treasury and Central Bank bonds	Loans and receivables	Amortised cost	493,542	493,538
Due from banks and other financial institutions	Loans and receivables	Amortised cost	569,308	569,284
Loans and advances	Loans and receivables	Amortised cost	2,236,527	2,236,527
Investment securities				
Debt securities	Available for sale	FVOCI	257,729	257,729
Equity securities	Available for sale	FVOCI	200,682	200,682
Others	Available for sale	FVTPL	363	363
Other assets	Loans and receivables	Amortised cost	35,149	35,149
			4,302,502	**4,302,429**

Impact on classification and measurement of financial assets

The following table reconciles the closing impairment allowance for financial assets other than loans and advances in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	KD 000's		
	31 December 2017	**Re-measurement**	**1 January 2018**
Cash and short term funds	-	45	45
Treasury and Central Bank bonds	-	4	4
Due from banks and other financial institutions	-	24	24
Investment securities			
Debt securities	2,509	223	2,732
	2,509	296	2,805

3- CASH AND SHORT TERM FUNDS

	2018 KD 000's	2017 KD 000's
Cash and cash items	**216,880**	204,406
Balances with the CBK	**119,732**	3,844
Deposits with banks maturing within seven days	**522,230**	300,952
Less: Provision for impairment (ECL)	**(17)**	-
	858,825	509,202

4- TREASURY AND CENTRAL BANK BONDS

	2018 KD 000's	2017 KD 000's
Treasury bonds	**214,013**	336,155
Central Bank bonds	**117,734**	157,387
	331,747	493,542

Treasury bonds issued by the CBK carry a fixed and floating 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

	2018 KD 000's	2017 KD 000's
Placements with banks	**268,858**	496,292
Less: Provision for impairment (ECL)	**(46)**	-
	268,812	496,292
Loans and advances to banks	**102,580**	73,754
Less: Provision for impairment	**(1,026)**	(738)
	101,554	73,016
	370,366	569,308

The ECL on credit facilities to the banks determined under IFRS 9 amounted to KD 379 thousand as at 31 December 2018. Majority of due from banks and other financial institutions are with counterparty rated as investment grade.

6- LOANS AND ADVANCES

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 2018

	KD 000's				
	Kuwait	**Asia**	**Europe**	**Others**	**Total**
Trade and commerce	**621,954**	**65,154**	**-**	**-**	**687,108**
Construction and real estate	**650,093**	**18,236**	**2**	**-**	**668,331**
Other financial institutions	**50,009**	**-**	**10,682**	**-**	**60,691**
Retail customers	**462,998**	**-**	**-**	**-**	**462,998**
Others	**490,622**	**23,061**	**2,364**	**107**	**516,154**
	2,275,676	**106,451**	**13,048**	**107**	**2,395,282**
Less: Provision for impairment					**(142,212)**
					2,253,070

As at 31 December 2017

	KD 000's				
	Kuwait	Asia	Europe	Others	Total
Trade and commerce	595,601	43,215	-	-	638,816
Construction and real estate	609,138	3,801	-	-	612,939
Other financial institutions	97,038	29,546	10,501	-	137,085
Retail customers	453,714	-	-	-	453,714
Others	482,953	47,858	-	106	530,917
	2,238,444	124,420	10,501	106	2,373,471
Less: Provision for impairment					(136,944)
					2,236,527

(b) Movement in provisions for loans and advances

	2018 KD 000's			2017 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**10,004**	**126,826**	**136,830**	14,225	126,845	141,070
Written-off	**(110,023)**	**-**	**(110,023)**	(15,800)	-	(15,800)
Exchange differences	**(1)**	**(28)**	**(29)**	(1)	42	41
Ceded to Central Bank	**(2)**	**-**	**(2)**	(8)	(61)	(8)
Charged / (released) to consolidated statement of income	**100,022**	**15,414**	**115,436**	11,588	-	11,527
Provisions 31 December	**-**	**142,212**	**142,212**	10,004	126,826	136,830

The specific and general provision for cash credit facilities amounting to KD 142,212 thousand (2017: KD 136,830 thousand) also includes an additional provision amounting to KD 112,300 thousand (2017: KD 97,500 thousand) which is over and above the CBK's minimum general provision requirements. The Group has also suspended interest amounting to KD nil thousand (2017: KD 114 thousand) on impaired loans. The available provision for non-cash credit facilities of KD 9,584 thousand (2017: KD 9,807 thousand) is included in other liabilities.

The ECL on credit facilities determined under IFRS 9 amounted to KD 29,050 thousand as at 31 December 2018. In downside scenario also, ECL on credit facilities will be below the provision held as per CBK rules.

(c) Non-performing loans

	2018 KD 000's	2017 KD 000's
Loans and advances	-	12,465
Collaterals	-	503
Available provisions	-	6,448

7- INVESTMENT SECURITIES

	2018 KD 000's	2017 KD 000's
Financial assets at FVOCI:		
Debt securities -quoted	292,000	-
Debt securities -unquoted	15,553	-
Equity securities -quoted	215,350	-
Equity securities -unquoted	25,849	-
Financial assets at FVPL:		
Others	36	
Available for sale		
Debt securities -quoted	-	229,497
Debt securities -unquoted	-	18,588
Equity securities -quoted	-	170,583
Equity securities -unquoted	-	30,099
Others	-	10,007
	548,788	458,774

The following table shows changes in gross carrying amount and the corresponding ECL in relation to investment in debt securities:

	2018			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Gross carrying amount as at 1 January	255,220	-	2,509	257,729
New assets purchased net of repayment	42,681	7,387	(244)	49,824
	297,901	7,387	2,265	307,553

Movement in ECL

	2018			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January	223	-	2,509	2,732
Charged (released) during the year	(25)	19	(244)	(250)
	198	19	2,265	2,482

During 2008, the Bank acquired 221,425,095 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 Boursa Kuwait. 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 five subsidiaries which sold the mentioned shares in Boursa Kuwait (we refer to the five subsidiaries companies below as "Appellants") , the Bank utilized these balances to close the loan due from the Borrower. In 2009, the Borrower, along with the appellants, filed a legal case challenging the Bank's ownership of the above mentioned shares where a final court judgment was issued in this dispute on 27 December 2017. A summary of major events is detailed hereunder:

In February 2009, the Court of Summary Appeal restricted the sale of 221,425,095 shares until a final court judgment is issued in the ownership dispute of these shares.

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 92,473,793 bonus shares.

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 221,425,095 shares.

In February 2017, the Court of Appeal issued a verdict, voiding the five sale contracts dated 30 November 2008 as concluded between the appellants and the Bank with regard to the sale of Boubyan Bank shares totalling 221,425,095 shares and revert the situation back to its pre-contract status, most importantly to revert back the shares, their yields, interests and any benefits the Bank has obtained, to the appellants along with voiding all acts the Bank has taken on the account of the Borrower following the sale date.

The Bank appealed against this verdict in the Court of Cassation. On 27 December 2017, the Court of Cassation issued a judgment partially accepting the appeal as the court obligated the appellants mentioned above to pay the price of shares to the Bank. The Court of Cassation also validated all the actions taken by the Bank on the account of the borrower following the date of the five sales contracts of the shares dated 30 November 2008. Furthermore, the Court of Cassation obligated the Borrower and the appellants to pay the required legal expenses on the litigation.

On 29 January 2018, the Bank has obtained the execution stamp for the execution of the judgment issued by the Court of Cassation against the appellants, whereby the Bank currently enjoys the power to collect the shares' value and in return to transfer the shares' ownership to the appellants. The Bank will continue to recognise these shares as part of Investment Securities until the judgment issued by the Court of Cassation is executed.

8- INVESTMENT IN AN ASSOCIATE

The Group owns 32.26% (2017: 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 (2017: KD 3,506 thousand). The brokerage license is considered to have an indefinite useful life.

As at 31 December 2018, 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 3.2% (2017: 2.9%). These cash flows were then discounted using a pre-tax discount rate of 9.7% (2017: 9.3%) 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, there are no indications that the additional impairment is required for the brokerage license (2017 KD nil thousand).

10- OTHER ASSETS

	2018 **KD 000's**	2017 KD 000's
Accrued interest receivable	**2,282**	2,512
Other receivables	**70,439**	92,219
	72,721	94,731

Other receivables include assets pending sale amounting to KD 57,689 thousand (2017: KD 60,685 thousand) that was obtained through the settlement of loans and advances.

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11- OTHER LIABILITIES

	2018 **KD 000's**	2017 KD 000's
Accrued interest payable	**23,906**	22,380
Deferred income	**5,522**	5,349
Provision for non-cash facilities & others	**75,054**	74,878
Staff related accruals	**8,061**	7,510
Others	**47,599**	57,328
	160,142	167,445

12 EQUITY

(a) Share capital

The share capital comprises of 1,810,960,405 (2017: 1,646,327,641) 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

	2018 **KD 000's**	2017 KD 000's
Number of treasury shares	**12,172,728**	11,066,117
Percentage of total shares issued	**0.67%**	0.67%
Cost of shares (KD 000's)	**4,578**	4,578
Fair value of shares (KD 000's)	**6,086**	4,426
Weighted average fair value per treasury share (fils)	**400**	401

Movement in treasury shares are as follows:

	No. of shares	
	2018	2017
Balance as at 1 January	**11,066,117**	8,000,000
Purchases	**-**	2,266,117
Bonus issue	**1,106,611**	8,000,000
Balance as at 31 December	**12,172,728**	11,066,117

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 2018 and 2017 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 investment securities classified as FVOCI. The reserve related to debt securities is transferred to the consolidated statement of income when the underlying assets are disposed off or impaired. The reserve related to equity securities will remain within consolidated statement of equity.

(g) Proposed dividend and bonus shares

The Extraordinary General Meeting of shareholders held on 31 March 2018 resolved to increase the authorised share capital of the Bank from KD 164,633 thousand to KD 181,096 thousand.

Annual General Assembly of the shareholders' held on 31 March 2018 approved to distribute cash dividend of 18 fils per share (2016: 15 fils per share) and 10 bonus shares for every 100 shares held (2016: 10 bonus shares for every 100 shares) for the year 2017. Subsequently, the cash dividend was paid and the bonus shares increased the number of shares by 164,632,764 and accordingly, the share capital by KD 16,463 thousand.

The Board of Directors has proposed a cash dividend of 20 fils per share (2017: 18 fils per share) and 10 bonus shares for every 100 shares held (2017: 10 bonus shares for every 100 shares held) for the year 2018. This proposal is subject to the approval of competent regulatory authorities and shareholders' Annual General Assembly.

13- IMPAIRMENT AND OTHER PROVISIONS

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

	2018	2017
	KD 000's	KD 000's
Loans and advances - specific	**(100,022)**	(11,588)
Loans and advances - recoveries	**78,455**	32,756
Loans and advances - general	**(15,702)**	(252)
Investment securities	**284**	(275)
Non cash facilities	**227**	(787)
Other provisions	**(2,632)**	(66,112)
	(39,390)	(46,258)

Impairment and other provisions includes ECL on financial assets other than loans and advances for the year ended 31 December 2018 amounting to KD 250 thousand.

14- TAXATION

	2018 KD 000's	2017 KD 000's
National Labour Support Tax (NLST)	**(1,588)**	(1,462)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)	**(676)**	(580)
Zakat	**(636)**	(574)
	(2,900)	(2,616)

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.

15- 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.

	2018	2017
Net profit for the year attributable to shareholders of the Bank (KD 000's)	**63,751**	55,432
Weighted average of authorised and subscribed shares (numbers in 000's)	**1,810,960**	1,810,960
Less: Weighted average of treasury shares held (numbers in 000's)	**(12,173)**	(10,760)
	1,798,787	1,800,200
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	**35.4**	30.8

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.

16- SUBSIDIARY

Name of Entity	Country of Incorporation	Principal Business	% of Ownership 2018	% of Ownership 2017
Al-Tijari Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage services	**93.55%**	93.55%

17- 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:

	2018			2017		
	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**	**-**	**453**	3	-	462
Credit cards	**3**	**1**	**3**	4	1	4
Deposits	**9**	**-**	**838**	10	-	332
Executive Management						
Loans	**22**	**-**	**517**	10	-	248
Credit cards	**7**	**-**	**15**	6	2	12
Deposits	**31**	**-**	**522**	13	-	508

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 6% (2017: 0% to 5.75%).

Details of compensation for key management including remuneration of the Chief Executive Officer amounting to KD 207 thousand (31 December 2017 KD: 197 thousand) are as follows:

	2018	2017
	KD 000's	KD 000's
Salaries and other short-term benefits	**1,228**	1,197
Post employment benefits	**4**	8
End of service benefits	**52**	105

The remuneration to the Chairman and members of the Board of Directors is KD 236 thousand (2017: KD 300 thousand) and KD 230 thousand (2017: KD 230 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.

18- 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 than 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.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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(vii): "Significant Accounting Policies".

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

	2018			
	KD 000's			
Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL:				
Other securities	**-**	**36**	**-**	**36**
Derivative Financial instruments at FVTPL:				
Derivative financial instruments (note 19)	**-**	**2,985**	**-**	**2,985**
Financial assets at FVOCI:				
Equity securities	**215,350**	**25,849**	**-**	**241,199**
Debt securities	**292,000**	**15,553**	**-**	**307,553**
	507,350	**41,402**	**-**	**548,752**

During the year ended 31 December 2018, there were no transfers between level 1, level 2 and level 3.

	2017			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Financial Instruments				
Financial instruments at FVTPL:				
Derivative financial instruments (note 19)	-	(909)	-	(909)
Financial assets available for sale:				
Equity securities	170,583	30,099	-	200,682
Debt securities	229,497	18,588	-	248,085
Others	-	10,007	-	10,007
	400,080	58,694	-	458,774

19- 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 geographic and industry-wise 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.

	2018 KD 000's	2017 KD 000's
Credit exposure relating to on-balance sheet items		
Cash and short term funds	**858,825**	509,202
Treasury and Central Bank bonds	**331,747**	493,542
Due from banks and OFIs	**370,366**	569,308
Loans and advances - Corporate	**1,794,686**	1,792,224
Loans and advances - Retail	**458,384**	444,303
Debt securities	**307,553**	248,085
Other assets	**15,285**	35,149
	4,136,846	4,091,813
Credit exposure relating to off-balance sheet items		
Acceptances	**39,878**	27,963
Letters of credit	**199,924**	184,981
Letters of guarantee	**1,307,045**	1,331,003
Undrawn lines of credit	**821,976**	673,828
	2,368,823	2,217,775
	6,505,669	6,309,588

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. CBK guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. To assess the recoverable value of collateral the Group applies the minimum haircut as stipulated in CBK guidelines.

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) 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 grade	Standard grade	0 - 60 days	61 - 90 days		
As at 31 December 2018							
Banks	**32,984**	**54,126**	**15,470**	**-**	**-**	**-**	**-**
Corporate	**264,077**	**1,161,804**	**2,650**	**500,939**	**2,814**	**-**	**-**
Retail	**-**	**-**	**442,404**	**20,594**	**-**	**-**	**-**
	297,061	**1,215,930**	**460,524**	**521,533**	**2,814**	**-**	**-**
As at 31 December 2017							
Banks	-	-	73,754	-	-	-	-
Corporate	271,962	947,262	212,769	478,523	6,771	2,470	495
Retail	-	-	416,447	27,272	-	9,995	8
	271,962	947,262	702,970	505,795	6,771	12,465	503

The Group's risk grading system is a systematic methodology for analysing risk factors associated with the extension of extending 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, if external ratings are not available.

Internal grades are further mapped to external credit ratings based on probablity of default corresponding to these grades. This mapping is used to categorise credit facilities into investment and non-investment categories

The parameters that are considered for grading the customers include quantitative metrics, which consist of key financial ratios and qualitative metrics which include but not limited to company specific, management specific, business specific, age and quality of financial information, historical account performance, general economic and political conditions etc. financial condition and performance, where applicable.

	Internal	**External**
Superior grade	Grades 1 to 4	Ratings AAA, AA+, AA, AA-, A+, A,A-, BBB+, BBB, BBB-
Good grade	Grades 5 & 6	Rating BB+, BB, BB-, B+
Standard grade	Grades 7 & 8	Rating B, B-, CCC+, CCC, CCC-
Default grade	Grades 9 to 11	Ratings D or equivalent

e) Concentration of financial assets and off-balance sheet items

	2018 KD 000's		2017 KD 000's	
	Assets	**Off Balance Sheet**	Assets	Off Balance Sheet
Geographic sector				
Kuwait	**3,303,998**	**1,890,787**	3,193,998	1,736,517
Asia	**894,857**	**287,600**	977,944	300,084
Europe	**143,872**	**147,794**	95,611	137,516
USA	**2,950**	**15,768**	1,914	43,483
Others	**32,404**	**26,874**	33,035	175
	4,378,081	**2,368,823**	4,302,502	2,217,775
Industry sector				
Government	**331,747**	**-**	493,542	-
Trade and commerce	**646,313**	**511,779**	603,206	475,210
Construction and real estate	**630,686**	**959,316**	582,003	1,011,402
Banks and financial institutions	**1,759,399**	**487,786**	1,598,133	406,459
Others	**1,009,936**	**409,942**	1,025,618	324,704
	4,378,081	**2,368,823**	4,302,502	2,217,775

(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				
As at 31 December 2018	Positive fair value	Negative fair value	Up to 1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Total
Forward Foreign Exchange Contracts	4,450	2,096	413,098	132,607	68,225	-	613,930
Interest Rate Swaps	1,280	649	1,214	4,141	27,736	102,594	169,788
	5,730	2,745	414,312	136,748	95,961	102,594	783,718
As at 31 December 2017							
Forward Foreign Exchange Contracts	1,403	2,973	276,509	224,184	149,167	-	649,860
Interest Rate Swaps	797	136	-	24,491	19,011	102,594	146,096
	2,200	3,109	276,509	248,675	168,178	102,594	795,956

(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	2018	2017
Kuwaiti dinar	+25	2,893	2,467
US dollar	+25	(220)	203
Other currencies	+25	577	526
		3,250	3,196

(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 currencies is managed by setting overall limits by the Board of Directors and regularly monitoring through technological and managerial controls. 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			
		2018		2017	
	% Change in currency rates	Statement of income	Equity	Statement of income	Equity
US Dollar	+5	(162)	-	(72)	-
Sterling Pound	+5	(1)	199	(12)	224
Australian Dollar	+5	5	-	5	-
Saudi Riyal	+5	13	-	13	-
UAE Dirham	+5	77	-	56	-
Qatari Riyal	+5	44	-	8	-
Others	+5	41	-	26	-
		17	199	24	224

(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			
		2018		2017	
	% Change in equity price	Statement of income	Equity	Statement of income	Equity
Boursa Kuwait	+5	-	10,768	-	8,529

(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 31December 2018	**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	**858,825**	**-**	**-**	**-**	**-**	**858,825**
Treasury and Central Bank bonds	**330,503**	**957**	**287**	**-**	**-**	**331,747**
Due from banks and OFIs	**87,328**	**143,655**	**-**	**98,785**	**40,598**	**370,366**
Loans and advances	**279,614**	**290,838**	**395,935**	**486,451**	**800,232**	**2,253,070**
Investment securities	**232,179**	**823**	**3,736**	**3,370**	**308,680**	**548,788**
Premises and equipment	**-**	**-**	**-**	**-**	**28,522**	**28,522**
Intangible assets	**-**	**-**	**-**	**-**	**3,506**	**3,506**
Other assets	**7,847**	**319**	**-**	**56,901**	**7,654**	**72,721**
	1,796,296	**436,592**	**399,958**	**645,507**	**1,189,192**	**4,467,545**
LIABILITIES						
Due to banks	**203,009**	**39,636**	**44,455**	**30,000**	**30,000**	**347,100**
Due to OFI's	**170,560**	**81,967**	**42,088**	**299,857**	**286,409**	**880,881**
Customer deposits	**1,747,456**	**221,632**	**242,858**	**65,833**	**14,111**	**2,291,890**
Other borrowed funds	**12,142**	**-**	**45,533**	**-**	**-**	**57,675**
Other liabilities	**36,914**	**12,046**	**7,088**	**5,856**	**98,238**	**160,142**
	2,170,081	**355,281**	**382,022**	**401,546**	**428,758**	**3,737,688**
Net liquidity gap	**(373,785)**	**81,311**	**17,936**	**243,961**	**760,434**	**729,857**

	KD 000's					
As at 31 December 2017	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	509,202	-	-	-	-	509,202
Treasury and Central Bank bonds	492,577	846	119	-	-	493,542
Due from banks and OFIs	159,162	226,805	80,206	-	103,135	569,308
Loans and advances	267,992	318,986	401,082	331,539	916,928	2,236,527
Investment securities	322,476	12,652	16,910	4,404	102,332	458,774
Premises and equipment	-	-	-	-	28,996	28,996
Intangible assets	-	-	-	-	3,506	3,506
Other assets	29,037	1,967	418	-	63,309	94,731
	1,780,446	561,256	498,735	335,943	1,218,206	4,394,586

As at 31 December 2017	KD 000's Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
LIABILITIES						
Due to banks	228,238	48,770	36,661	-	-	313,669
Due to OFI's	126,837	131,770	182,572	230,055	345,257	1,016,491
Customer deposits	1,501,322	471,614	157,925	69,748	3,602	2,204,211
Other borrowed funds	-	37,750	-	-	-	37,750
Other liabilities	45,686	13,040	8,442	5,553	94,724	167,445
	1,902,083	702,944	385,600	305,356	443,583	3,739,566
Net liquidity gap	(121,637)	(141,688)	113,135	30,587	774,623	655,020

(B) Contractual expiry by maturity.

As at 31 December 2018	**KD 000's Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
Contingent Liabilities	**1,148,117**	**281,137**	**157,773**	**229,187**	**552,609**	**2,368,823**
As at 31 December 2017						
Contingent Liabilities	816,281	334,263	174,136	241,744	651,351	2,217,775

(C) Contractual undiscounted repayment obligations by maturity.

As at 31 December 2018	**KD 000's 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	**203,326**	**39,677**	**44,912**	**30,863**	**30,912**	**349,690**
Due to OFI's	**170,601**	**82,196**	**42,473**	**305,367**	**298,644**	**899,281**
Customer deposits	**1,747,785**	**222,385**	**243,863**	**66,450**	**14,198**	**2,294,681**
Other borrowed funds	**12,272**	**-**	**45,879**	**-**	**-**	**58,151**
Other liabilities	**36,914**	**12,046**	**7,088**	**5,856**	**98,238**	**160,142**
	2,170,898	**356,304**	**384,215**	**408,536**	**441,992**	**3,761,945**

As at 31 December 2017	KD 000's 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	228,288	48,861	36,936	-	-	314,085
Due to OFI's	126,898	132,158	183,921	233,243	356,055	1,032,275
Customer deposits	1,501,360	472,598	158,072	70,602	3,685	2,206,317
Other borrowed funds	-	37,812	-	-	-	37,812
Other liabilities	45,686	13,040	8,442	5,553	94,724	167,445
	1,902,232	704,469	387,371	309,398	454,464	3,757,934

20- 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.

21- 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	
	2018	2017	**2018**	2017	**2018**	2017
Net interest income	**81,824**	82,498	**12,033**	11,091	**93,857**	93,589
Non interest income	**44,596**	43,683	**12,474**	13,676	**57,070**	57,359
Operating income	**126,420**	126,181	**24,507**	24,767	**150,927**	150,948
Impairment and other provisions	**(39,229)**	15,001	**(161)**	(61,259)	**(39,390)**	(46,258)
Net profit for the year	**63,416**	115,623	**354**	(60,123)	**63,770**	55,500
Total Assets	**2,430,855**	2,376,561	**2,036,690**	2,018,025	**4,467,545**	4,394,586
Total Liabilities and Equity	**1,625,508**	1,654,298	**2,842,037**	2,740,288	**4,467,545**	4,394,586

22- 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 1,470 thousand (2017: KD 1,071 thousand) has been provided.

23- 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 2018

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 1,810,960,405 (31 December 2017: 1,646,327,641) authorised, subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2018, the Bank held 12,172,728 treasury shares (31 December 2017: 11,066,117 treasury shares).

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

	2018 KD 000's	2017 KD 000's
a. Tier 1 capital consist of:		
i Common equity tier 1 (CET1)		
1.Paid-up share capital	**181,096**	164,633
2. Proposed bonus shares	**18,110**	16,463
3. Share premium	**66,791**	66,791
4. Retained earnings	**184,093**	174,724
5.Investment valuation reserve	**89,524**	48,196
6. Property revaluation reserve	**24,108**	24,624
7. Statutory reserve	**115,977**	115,977
8. General reserve	**17,927**	17,927
9. Treasury shares reserve	**-**	-
10. Other intangibles	**(3,506)**	(3,506)
11. Treasury shares	**(4,578)**	(4,578)
12. Non significant investments in banking, financial and insurance entities	**-**	-
13. Significant investments in banking, financial and insurance entities	**(78,627)**	(39,936)
Total	**610,915**	581,315
ii- Additional tier 1		
1.Non-controlling interests in consolidated subsidiaries	**833**	828
Total	**833**	828
Total tier 1 capital	**611,748**	582,143

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 December 2018

	2018 KD 000's	2017 KD 000's
b. Tier 2 capital.		
1. General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	**41,813**	39,888
Total tier 2 capital	**41,813**	39,888
Total eligible capital	**653,561**	622,031

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

	2018 KD 000's			2017 KD 000's		
	Gross exposures	**Net risk weighted assets**	**Capital requirement**	Gross exposures	Net risk weighted assets	Capital requirement
a. Credit risk						
1. Claims on sovereigns	**479,649**	**7,648**	**994**	540,559	7,594	987
2. Claims on international organisations	**-**	**-**	**-**	-	-	-
3. Claims on PSEs	**127,582**	**479**	**62**	120,369	-	-
4. Claims on MDBs	**-**	**-**	**-**	-	-	-
5. Claims on banks	**1,531,081**	**472,457**	**61,419**	1,401,411	454,237	59,051
6. Claims on corporates	**3,762,343**	**2,031,093**	**264,042**	3,633,257	1,907,712	248,003
7. Claims on central counter parties	**-**	**-**	**-**	-	-	-
8. Cash items	**216,863**	**-**	**-**	207,288	-	-
9. Regulatory retail	**483,070**	**468,749**	**60,937**	465,314	450,809	58,605
10. RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11. Past due exposure	**57**	**13**	**2**	6,230	4,524	588
12. Other assets	**232,794**	**256,838**	**33,390**	258,055	272,158	35,380
13. Claims on securitised assets	**-**	**-**	**-**	-	-	-
Total	**6,833,439**	**3,237,277**	**420,846**	6,632,483	3,097,034	402,614

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 December 2018

	2018 KD 000's			2017 KD 000's		
	Gross exposures	**Net risk weighted assets**	**Capital requirement**	Gross exposures	Net risk weighted assets	Capital requirement
b. Market risk						
1. Interest rate position risk	**-**	**-**	**-**	-	-	-
2. Equities position risk	**36**	**70**	**9**	-	-	-
3. Foreign exchange risk	**3,780**	**3,780**	**491**	2,182	2,183	284
4. Commodities risk	**-**	**-**	**-**	-	-	-
5. Options	**-**	**-**	**-**	-	-	-
Total	**3,816**	**3,850**	**500**	2,182	2,183	284
c. Operational risk	**145,226**	**258,665**	**33,626**	137,439	244,291	31,758
Total	**6,982,481**	**3,499,792**	**454,972**	6,772,104	3,343,508	434,656

B. Capital ratios

	2018	2017
1. Total capital ratio	**18.67%**	18.60%
2. Tier 1 capital ratio	**17.48%**	17.41%
3. CET 1 capital ratio	**17.46%**	17.39%

C. Additional capital disclosure

1. Common disclosure template

	2018 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	**247,887**	**i+l**
2- Retained earnings	**184,093**	**r**
3- Accumulated other comprehensive income (and other reserves)	**265,646**	**j+m+n+o+p+q**
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	**697,626**	

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 December 2018

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)	3,506	g
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)	4,578	k
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)	78,627	d
20- Mortgage servicing rights (amount above 10% threshold of bank's CET1 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	86,711	
29- Common Equity Tier 1 capital (CET1) after regulatory adjustments	610,915	

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

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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)	833	s
35- of which: instruments issued by subsidiaries subject to phase-out	-	
36- Additional Tier 1 capital before regulatory adjustments	833	
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)	-	
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)	833	
45- Tier 1 capital (T1 = CET1 + AT1)	611,748	
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	41,813	c
51- Tier 2 capital before regulatory adjustments	41,813	

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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)	**41,813**	
59- Total capital (TC = T1 + T2)	**653,561**	
60- Total risk weighted assets	**3,499,792**	
Capital Ratios and Buffers		
61- Common Equity Tier 1 (as a percentage of risk weighted assets)	**17.46%**	
62- Tier 1 (as a percentage of risk weighted assets)	**17.48%**	
63- Total capital (as a percentage of risk weighted assets)	**18.67%**	
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)	**10.46%**	
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	**67,060**	**f**

73- Significant investments in the common stock of financials institutions	**68,954**	**e**
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)	**149,607**	**a+b+h**
77- Cap on inclusion of provisions in Tier 2 under standardized approach	**41,813**	**c**
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	**-**	

	2017 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	231,424	i+l
2- Retained earnings	174,724	r
3- Accumulated other comprehensive income (and other reserves)	223,187	j+m+n+o+p+q
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	629,335	
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)	3,506	g
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)	4,578	k
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)	39,936	d
20- Mortgage servicing rights (amount above 10% threshold of bank's CET1 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	48,020	
29- Common Equity Tier 1 capital (CET1) after regulatory adjustments	581,315	

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)	828	s

35- of which: instruments issued by subsidiaries subject to phase-out	-	
36- Additional Tier 1 capital before regulatory adjustments	828	
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)	-	
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)	828	
45- Tier 1 capital (T1 = CET1 + AT1)	582,143	
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	39,888	c
51- Tier 2 capital before regulatory adjustments	39,888	
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)	-	

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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)	39,888	
59- Total capital (TC = T1 + T2)	622,031	
60- Total risk weighted assets	3,343,508	
Capital Ratios and Buffers		
61- Common Equity Tier 1 (as a percentage of risk weighted assets)	17.39%	
62- Tier 1 (as a percentage of risk weighted assets)	17.41%	
63- Total capital (as a percentage of risk weighted assets)	18.60%	
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)	10.39%	
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	55,786	f
73- Significant investments in the common stock of financials institutions	62,125	e
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)	133,905	a+b+h

77- Cap on inclusion of provisions in Tier 2 under standardized approach	39,888	c
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;

	2018 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	858,825		
Treasury and Central Bank bonds	331,747		
Due from banks and other financial institutions	370,366	1,026	a
Loans and advances	2,253,070		
Of which: general provisions on funded exposure eligible for inclusion in Tier 2		142,212	b
Of which: Cap on inclusion of general provisions in Tier 2		41,813	c
Investment securities	548,788		
Of which: significant investment in the capital of financial institutions (amount above 10% threshold of bank's CET1 capital)		78,627	d
Of which: significant investment in the capital of financial institutions (amount below 10% threshold of bank's CET1 capital)		68,954	e
Of which: non significant investment in the capital of other financial institutions (amounts below the thresholds for deduction)		67,06	f
Premises and equipment	28,522		
Intangible assets	3,506	3,506	g
Other assets	72,721		
Total assets	**4,467,545**		

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	2018 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Liabilities and equity			
Liabilities			
Due to banks	347,100		
Due to other financial institutions	880,881		
Customer deposits	2,291,890		
Other borrowed funds	57,675		
Other liabilities	160,142		
Of which: general provisions on unfunded exposure eligible for inclusion in Tier 2		6,369	h
Total liabilities	3,737,688		
Equity			
Equity attributable to shareholders of the Bank			
Share capital	181,096	181,096	i
Proposed bonus shares	18,110	18,110	j
Treasury shares	(4,578)	4,578	k
Reserves	314,327		
of which: share premium		66,791	l
of which: statutory reserve		115,977	m
of which: general reserve		17,927	n
of which: treasury share reserve		-	o
of which: property revaluation reserve		24,108	p
of which: property investment valuation reserve		89,524	q
Retained earnings	184,093	184,093	r
	693,048		
Proposed dividend	35,976		
	729,024		
Non-controlling interests	833	833	s
Total equity	729,857		
Total liabilities and equity	4,467,545		

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	2017 KD 000's		
Assets	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Cash and short term funds	509,202		
Treasury and Central Bank bonds	493,542		
Due from banks and other financial institutions	569,308	726	a
Loans and advances	2,236,527		
Of which: general provisions on funded exposure eligible for inclusion in Tier 2		126,838	b
Of which: Cap on inclusion of general provisions in Tier 2			
Investment securities	458,774	39,888	c
Of which: significant investment in the capital of financial institutions (amount above 10% threshold of bank's CET1 capital)		39,936	d
Of which: significant investment in the capital of financial institutions (amount below 10% threshold of bank's CET1 capital)		62,125	e
Of which: non significant investment in the capital of other financial institutions (amounts below the thresholds for deduction)		55,786	f
Premises and equipment	28,996		
Intangible assets	3,506	3,506	g
Other assets	94,731		
Total assets	4,394,586		
Liabilities and equity			
Liabilities			
Due to banks	313,669		
Due to other financial institutions	1,016,491		
Customer deposits	2,204,211		
Other borrowed funds	37,750		
Other liabilities	167,445		
Of which: general provisions on unfunded exposure eligible for inclusion in Tier 2		6,341	h
Total liabilities	3,739,566		
Equity			
Equity attributable to shareholders of the Bank			
Share capital	164,633	164,633	i
Proposed bonus shares	16,463	16,463	j
Treasury shares	(4,578)	4,578	k
Reserves	273,515		
of which: share premium		66,791	l
of which: statutory reserve		115,977	m
of which: general reserve		17,927	n
of which: treasury share reserve		-	o
of which: property revaluation reserve		24,624	p
of which: property investment valuation reserve		48,196	q
Retained earnings	174,724	174,724	r
	624,757		
Proposed dividend	29,435		
	654,192		
Non-controlling interests	828	828	s
Total equity	655,020		
Total liabilities and equity	4,394,586		

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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 181,096
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.

(a) Summary comparison of accounting assets vs total leverage ratio exposure:

	2018 KD 000's	2017 KD 000's
1- Total consolidated assets as per published financial statements	**4,467,545**	4,394,586
2- Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-
3- Adjustment for fiduciary assets recognized on the balance sheet pursuant to the bank's operative accounting framework but excluded from total exposures in calculation of leverage ratio	**-**	-
4- Derivative exposures	**12,553**	10,004
5- Securities Financing Transaction Exposures	**-**	-
6- Exposures for off-balance sheet items (i.e. credit equivalent amounts)	**783,614**	708,035
7- Other exposures	**(82,133)**	(43,442)
8- Total exposures in calculation of leverage ratio	**5,181,579**	5,069,183

(b) Leverage ratio common disclosure:

1- On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,467,545**	4,394,586
2- (Asset amounts deducted in determining Tier 1 capital)	**(82,133)**	(43,442)
3- Total on-balance sheet exposures (excluding derivatives and SFTs)	**4,385,412**	4,351,144
4- Replacement cost associated with all derivative transactions (net of eligible cash variation margin)	**5,730**	2,200
5- Add-on amounts for Potential Future Exposure (PFE) associated with all derivative transactions	**6,823**	7,804
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	**12,553**	10,004

	2018 KD 000's	2017 KD 000's
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)	**2,368,823**	2,217,775
18- (Adjustments for conversion to credit equivalent amounts)	**(1,585,209)**	(1,509,740)
19- Total Off-balance sheet exposure	**783,614**	708,035
20- Total exposures	**5,181,579**	5,069,183
21- Tier 1 capital	**611,748**	582,143
22- Leverage ratio (Tier 1 capital / total exposures)	**11.81%**	11.48%

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, 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 and international banking proposals including assessment of credit lines for various countries and banks and investment proposals as per the credit policy as well as post fact review of corporate credit and international banking 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 and for 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 unit also works out the PD associated with the different obligor grades for use in IFRS9 calculations.

The Information Security unit is responsible for monitoring, measuring and reporting all the Group's information Security risks [internal and external threats whether deliberate or accidental] on Information Assets of the bank. Information Security ensures that Risks are assessed, gaps identified and the recommended security controls in line with Regulatory requirements and best practices are communicated to the Risk owners so that the information is protected against unauthorized access and disclosures and the Information assets are kept safe. Information Security defines the Policies and Processes pertaining to the requirements defined by Regulatory/ standard bodies and tests the effectiveness of the controls put forth by various Risk Owners to secure the Information Assets. Identified risks and the treatment plans are reported to BRMC

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 enterprise wide stress test 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- The Credit

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 framework 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, and circulated to the Management and the Board Chairman.

The Bank uses an obligor risk rating model based on 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. As required by CBK, our internal risk grades have also been mapped to external grades. 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 is also being done. 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, Fitch 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.

Banks exposure to derivatives are by way of forex forwards with banks and bank customers and interest rate swaps entered into for hedging fixed rate bonds in the bond portfolio. 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. Economic capital for market risk is calculated using stressed ES (Expected Shortfall) in line with guidance issued 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 restri cted to stipulated limits and guidelines laid down by the Central Bank.

c- Liquidity Risks

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. Internal limits for liabilities from significant depositors and from sensitive products/instruments are also in place. 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 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 has introduced internal limits for the liquidity ratios introduced in Basel III, i.e. the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). 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. The sensitivity of the economic value of equity is also calculated under certain pre-defined shifts in interest rate. 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 Key Risk Indicator (KRI) framework and a comprehensive review of group-wide operating 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 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.

Provision for credit losses are recognized on credit facilities based on the Central Bank of Kuwait (CBK) guidelines (The guidelines). As per the guidelines provision for credit losses to be recognized is higher of i) Expected credit losses as per CBK's IFRS 9 guidlines and; ii) Provision required by the CBK rules on classification of credit facilities and calculation of their provisions (the CBK rules).

For deatils on ECL methodology please refer financial statement note 2.i.ix "impairment of financial asset".

The CBK rules stipulates two tier approach for credit loss estimation. Total credit loss to be recognized is sum of General and Specific provision. General provision is computed as 1% of outstanding cash facility balance and 0.5% of non cash facility balance after netting of certain restricted category of collateral. Specific provision calculation is based on categorization of a credit facility into undermention past due categories. Credit facilities are classified in the following categories when there is an objective evidence of impairment based on specified criteria, including management judgment of increase in credit risk.

Past Due Days	Loss %
> 90 days < 180 days	20%
>180 days <365 days	50%
>365 days	100%

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 ECAI 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 ECAI ratings and in case of claims on banks, into short-term and long-term exposures, as laid down in the regulations.

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a- Gross credit exposures

	2018			2017		
	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	479,649	479,649	-	540,559	540,559	-
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	127,582	127,582	-	120,369	120,369	-
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	1,531,081	1,159,529	371,552	1,401,411	1,087,224	314,187
6. Claims on corporates	3,762,343	1,779,983	1,982,360	3,633,257	1,744,113	1,889,144
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	216,863	216,863	-	207,288	207,288	-
9. Regulatory retail	483,070	468,216	14,854	465,314	450,971	14,343
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	57	-	57	6,230	6,129	101
12. Other assets	232,794	232,794	-	258,055	258,055	-
13. Claims on securitised assets	-	-	-	-	-	-
	6,833,439	4,464,616	2,368,823	6,632,483	4,414,708	2,217,775

b- Average gross credit exposures

	2018			2017		
	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	510,104	510,104	-	475,000	475,000	-
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	123,976	123,976	-	109,069	109,069	-
4. Claims on MDBs	-	-	-	1,925	1,925	-
5. Claims on banks	1,466,246	1,123,377	342,870	1,333,844	1,023,591	310,253
6. Claims on corporates	3,697,800	1,762,048	1,935,752	3,604,721	1,741,063	1,863,658
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	212,076	212,076	-	219,709	219,709	-
9. Regulatory retail	474,192	459,594	14,599	459,023	444,511	14,512
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	3,144	3,065	79	6,141	6,087	54
12. Other assets	245,425	245,425	-	290,763	290,763	-
13. Claims on securitised assets	-	-	-	-	-	-
	6,732,963	4,439,665	2,293,300	6,500,195	4,311,718	2,188,477

c- Total credit exposures by geographic sector

	KD 000's					
As at 31 December 2018	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1. Claims on sovereigns	**462,000**	**17,649**	-	-	-	**479,649**
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	**127,582**	-	-	-	-	**127,582**
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	**390,792**	**877,893**	**203,862**	**3,077**	**55,457**	**1,531,081**
6. Claims on corporates	**3,569,738**	**131,353**	**47,425**	**13,827**	-	**3,762,343**
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	**30,284**	**142,481**	**29,836**	**13,551**	**711**	**216,863**
9. Regulatory retail	**482,017**	**587**	**357**	**1**	**108**	**483,070**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	**57**	-	-	-	-	**57**
12. Other assets	**226,511**	**1,607**	**4,604**	**72**	-	**232,794**
13. Claims on securitised assets	-	-	-	-	-	-
	5,288,981	**1,171,570**	**286,084**	**30,528**	**56,276**	**6,833,439**
Percentage of credit exposure by geographical sector	**77.4%**	**17.1%**	**4.2%**	**0.5%**	**0.8%**	**100.0%**

	KD 000's					
As at 31 December 2017	Kuwait	Asia	Europe	USA	Others	Total
1. Claims on sovereigns	508,014	32,545	-	-	-	540,559
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	120,369	-	-	-	-	120,369
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	282,856	938,850	144,681	1,733	33,291	1,401,411
6. Claims on corporates	3,368,619	175,962	47,275	41,401	-	3,633,257
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	32,049	47,741	106,462	20,532	504	207,288
9. Regulatory retail	464,238	480	373	-	223	465,314
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	6,227	3	-	-	-	6,230
12. Other assets	153,775	103,093	1,157	30	-	258,055
13. Claims on securitised assets	-	-	-	-	-	-
	4,936,147	1,298,674	299,948	63,696	34,018	6,632,483
Percentage of credit exposure by geographical sector	74.4%	19.6%	4.5%	1.0%	0.5%	100.0%

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d- Funded credit exposures by geographic sector

	KD 000's					
As at 31 December 2018	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1. Claims on sovereigns	**462,000**	**17,649**	-	-	-	**479,649**
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	**127,582**	-	-	-	-	**127,582**
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	**381,206**	**624,982**	**117,804**	**2,914**	**32,623**	**1,159,529**
6. Claims on corporates	**1,668,340**	**98,596**	**13,047**	-	-	**1,779,983**
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	**30,284**	**142,481**	**29,836**	**13,551**	**711**	**216,863**
9. Regulatory retail	**467,905**	**204**	-	-	**107**	**468,216**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	**226,511**	**1,607**	**4,604**	**72**	-	**232,794**
13. Claims on securitised assets	-	-	-	-	-	-
	3,363,828	**885,519**	**165,291**	**16,537**	**33,441**	**4,464,616**
Percentage of credit exposure by geographical sector	**75.3%**	**19.9%**	**3.7%**	**0.4%**	**0.7%**	**100.0%**

	KD 000's					
As at 31 December 2017	Kuwait	Asia	Europe	USA	Others	Total
1. Claims on sovereigns	508,014	32,545	-	-	-	540,559
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	120,369	-	-	-	-	120,369
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	271,461	710,237	70,714	1,551	33,261	1,087,224
6. Claims on corporates	1,626,937	106,676	10,500	-	-	1,744,113
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	32,049	47,741	106,462	20,532	504	207,288
9. Regulatory retail	450,684	182	-	-	105	450,971
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	6,126	3	-	-	-	6,129
12. Other assets	153,775	103,093	1,157	30	-	258,055
13. Claims on securitised assets	-	-	-	-	-	-
	3,169,415	1,000,477	188,833	22,113	33,870	4,414,708
Percentage of credit exposure by geographical sector	71.8%	22.6%	4.3%	0.5%	0.8%	100.0%

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e. Unfunded credit exposures by geographic sector

	KD 000's					
As at 31 December 2018	**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**	**252,911**	**86,058**	**163**	**22,834**	**371,552**
6. Claims on corporates	**1,901,398**	**32,757**	**34,378**	**13,827**	-	**1,982,360**
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	-	-	-	-	-	-
9. Regulatory retail	**14,112**	**383**	**357**	**1**	**1**	**14,854**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	**57**	-	-	-	-	**57**
12. Other assets	-	-	-	-	-	-
13. Claims on securitised assets	-	-	-	-	-	-
	1,925,153	**286,051**	**120,793**	**13,991**	**22,835**	**2,368,823**
Percentage of unfunded credit exposure by geographical sector	**81.3%**	**12.1%**	**5.0%**	**0.6%**	**1.0%**	**100.0%**

	KD 000's					
As at 31 December 2017	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	228,613	73,967	182	30	314,187
6. Claims on corporates	1,741,682	69,286	36,775	41,401	-	1,889,144
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	-	-	-	-	-	-
9. Regulatory retail	13,554	298	373	-	118	14,343
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	101	-	-	-	-	101
12. Other assets	-	-	-	-	-	-
13. Claims on securitised assets	-	-	-	-	-	-
	1,766,732	298,197	111,115	41,583	148	2,217,775
Percentage of unfunded credit exposure by geographical sector	79.7%	13.4%	5.0%	1.9%	0.0%	100.0%

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f- Total credit exposures by residual maturity

	KD 000's					
As at 31 December 2018	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
1. Claims on sovereigns	155,191	42,121	81,898	41,255	159,184	479,649
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	8	-	-	-	127,574	127,582
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	769,248	231,654	43,086	152,290	334,803	1,531,081
6. Claims on corporates	1,300,177	451,253	482,867	609,836	918,210	3,762,343
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	216,863	-	-	-	-	216,863
9. Regulatory retail	6,302	3,394	4,652	6,663	462,059	483,070
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	47	-	-	10	57
12. Other assets	106,556	320	404	310	125,204	232,794
13. Claims on securitised assets	-	-	-	-	-	-
	2,554,345	728,789	612,907	810,354	2,127,044	6,833,439
Percentage of total credit exposures by residual maturity	37.4%	10.7%	9.0%	11.9%	31.1%	100.0%

	KD 000's					
As at 31 December 2017	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Claims on sovereigns	43,879	84,928	120,879	39,663	251,210	540,559
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	-	-	6,269	683	113,417	120,369
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	488,154	378,710	123,756	57,730	353,061	1,401,411
6. Claims on corporates	1,076,075	483,202	498,091	483,061	1,092,828	3,633,257
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	206,783	505	-	-	-	207,288
9. Regulatory retail	14,701	5,473	4,471	6,948	433,721	465,314
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	6,230	-	-	-	-	6,230
12. Other assets	105,802	6,335	242	74	145,602	258,055
13. Claims on securitised assets	-	-	-	-	-	-
	1,941,624	959,153	753,708	588,159	2,389,839	6,632,483
Percentage of total credit exposures by residual maturity	29.3%	14.5%	11.4%	8.8%	36.0%	100.0%

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g. Funded credit exposures by residual maturity

	KD 000's					
As at 31 December 2018	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
1. Claims on sovereigns	155,191	42,121	81,898	41,255	159,184	479,649
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	8	-	-	-	127,574	127,582
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	610,026	147,055	29,279	123,563	249,606	1,159,529
6. Claims on corporates	312,710	256,774	341,177	413,792	455,530	1,779,983
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	216,863	-	-	-	-	216,863
9. Regulatory retail	4,874	1,382	2,376	2,247	457,337	468,216
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	106,556	320	404	310	125,204	232,794
13. Claims on securitised assets	-	-	-	-	-	-
	1,406,228	447,652	455,134	581,167	1,574,435	4,464,616
Percentage of funded credit exposures by residual maturity	31.5%	10.0%	10.2%	13.0%	35.2%	100.0%

	KD 000's					
As at 31 December 2017	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Claims on sovereigns	43,879	84,928	120,879	39,663	251,210	540,559
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	-	-	6,269	683	113,417	120,369
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	460,115	259,529	105,251	26,809	235,520	1,087,224
6. Claims on corporates	289,123	270,377	345,053	276,001	563,559	1,744,113
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	206,783	505	-	-	-	207,288
9. Regulatory retail	13,512	3,216	1,878	3,185	429,180	450,971
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	6,129	-	-	-	-	6,129
12. Other assets	105,802	6,335	242	74	145,602	258,055
13. Claims on securitised assets	-	-	-	-	-	-
	1,125,343	624,890	579,572	346,415	1,738,488	4,414,708
Percentage of funded credit exposures by residual maturity	25.5%	14.2%	13.1%	7.8%	39.4%	100.0%

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h. Unfunded credit exposures by residual maturity

As at 31 December 2018	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	-	-	-	-	-	-
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	-	-	-	-	-	-
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	159,222	84,599	13,807	28,727	85,197	371,552
6. Claims on corporates	987,467	194,479	141,690	196,044	462,680	1,982,360
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	-	-	-	-	-	-
9. Regulatory retail	1,428	2,012	2,276	4,416	4,722	14,854
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	47	-	-	10	57
12. Other assets	-	-	-	-	-	-
13. Claims on securitised assets	-	-	-	-	-	-
	1,148,117	281,137	157,773	229,187	552,609	2,368,823
Percentage of unfunded credit exposures by residual maturity	48.5%	11.9%	6.7%	9.7%	23.2%	100.0%

As at 31 December 2017	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	-	-	-	-	-	-
2. Claims on international organisations	-	-	-	-	-	-
3. Claims on PSEs	-	-	-	-	-	-
4. Claims on MDBs	-	-	-	-	-	-
5. Claims on banks	28,039	119,181	18,505	30,921	117,541	314,187
6. Claims on corporates	786,952	212,825	153,038	207,060	529,269	1,889,144
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	-	-	-	-	-	-
9. Regulatory retail	1,189	2,257	2,593	3,763	4,541	14,343
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	101	-	-	-	-	101
12. Other assets	-	-	-	-	-	-
13. Claims on securitised assets	-	-	-	-	-	-
	816,281	334,263	174,136	241,744	651,351	2,217,775
Percentage of unfunded credit exposures by residual maturity	36.8%	15.1%	7.9%	10.9%	29.3%	100.0%

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i. Impaired loans and provisions by standard portfolio

	2018			2017		
	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	-	-	-	2,470	(1,394)	1,076
7. Claims on central counter parties	-	-	-	-	-	-
8. Cash items	-	-	-	-	-	-
9. Regulatory retail	-	-	-	9,995	(5,054)	4,941
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	-	-	-	-	-	-
13. Claims on securitised assets	-	-	-	-	-	-
	-	-	-	12,465	(6,448)	6,017

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

	2018		2017	
	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	500,939	2,814	478,523	6,771
7. Claims on central counter parties	-	-	-	-
8. Cash items	-	-	-	-
9. Regulatory retail	20,594	-	27,272	-
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	-	-	-
12. Other assets	-	-	-	-
13. Claims on securitised assets	-	-	-	-
	521,533	2,814	505,795	6,771

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

	2018		2017	
	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	1,026	(623)	726	(1,266)
6. Claims on corporates	133,417	33,063	117,984	(21,816)
7. Claims on central counter parties	-	-	-	-
8. Cash items	-	-	-	-
9. Regulatory retail	5,874	9,298	5,632	2,953
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	-	-	-
12. Other assets	2,921	(2,348)	3,222	66,387
13. Claims on securitised assets	-	-	-	-
	143,238	39,390	127,564	46,258

l. Impaired loans and provisions by geographic sector

	KD 000's			
As at 31 December 2018	Gross Debt	Specific Provision	Past due but not impaired	
			0-60 days	61-90 days
Kuwait	-	-	521,533	2,814
Asia	-	-	-	-
Europe	-	-	-	-
USA	-	-	-	-
Others	-	-	-	-
	-	-	521,533	2,814

	KD 000's			
As at 31 December 2017	Gross Debt	Specific Provision	Past due but not impaired	
			0-60 days	61-90 days
Kuwait	12,465	(6,448)	505,795	6,771
Asia	-	-	-	-
Europe	-	-	-	-
USA	-	-	-	-
Others	-	-	-	-
	12,465	(6,448)	505,795	6,771

m. Movement in provisions

	2018			2017		
	KD 000's			KD 000's		
	Specific	General	Total	Specific	General	Total
Provisions 1 January	10,118	127,564	137,682	14,356	127,270	141,626
Write-offs	(112,670)	-	(112,670)	(16,316)	-	(16,316)
Exchange differences	(1)	(28)	(29)	(1)	42	41
Ceded to Central Bank	(2)	-	(2)	(8)	-	(8)
Statement of income	102,555	15,702	118,257	12,087	252	12,339
	-	143,238	143,238	10,118	127,564	137,682

n. Credit exposures after CRM and CCF

	2018		2017	
	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	-	479,863	-	540,736
2. Claims on international organisations	-	-	-	-
3. Claims on PSEs	-	127,582	-	120,369
4. Claims on MDBs	-	-	-	-
5. Claims on banks	972,223	389,567	972,806	282,307
6. Claims on corporates	23,910	2,115,787	69,174	1,944,277
7. Claims on central counter parties	-	-	-	-
8. Cash items	-	216,863	-	207,288
9. Regulatory retail	-	471,429	-	453,832
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	27	-	5,668
12. Other assets	-	232,470	-	251,941
13. Claims on securitised assets	-	-	-	-
	996,133	4,033,588	1,041,980	3,806,418

VII- Credit risk mitigation

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. 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.

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

	KD 000's			
As at 31 December 2018	**Total gross exposures**	**Collateralised Exposures**	**Financial Collaterals**	**Bank Guarantees**
1. Claims on sovereigns	**479,649**	-	-	-
2. Claims on international organisations	-	-	-	-
3. Claims on PSEs	**127,582**	-	-	-
4. Claims on MDBs	-	-	-	-
5. Claims on banks	**1,531,081**	-	-	-
6. Claims on corporates	**3,762,343**	**406,457**	**157,054**	-
7. Claims on central counter parties	-	-	-	-
8. Cash items	**216,863**	-	-	-
9. Regulatory retail	**483,070**	**10,112**	**3,913**	-
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	**57**	-	**2**	-
12. Other assets	**232,794**	**20,925**	**324**	-
13. Claims on securitised assets	-	-	-	-
	6,833,439	**437,494**	**161,293**	-

	KD 000's			
As at 31 December 2017	Total gross exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1. Claims on sovereigns	540,559	-	-	-
2. Claims on international organisations	-	-	-	-
3. Claims on PSEs	120,369	-	-	-
4. Claims on MDBs	-	-	-	-
5. Claims on banks	1,401,411	-	-	-
6. Claims on corporates	3,633,257	597,096	275,194	-
7. Claims on central counter parties	-	-	-	-
8. Cash items	207,288	-	-	-
9. Regulatory retail	465,314	3,133	3,962	-
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	6,230	505	512	-
12. Other assets	258,055	25,289	6,114	-
13. Claims on securitised assets	-	-	-	-
	6,632,483	626,023	285,782	-

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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:

	2018 KD 000's	2017 KD 000's
1. Interest rate position risk	-	-
2. Equity position risk	9	-
3. Foreign exchange risk	491	284
4. Commodities risk	-	-
5. Options	-	-
	500	284

IX- Operational risk

The Group uses the standardised approach for computation of operational risk capital charge that amounted to KD 20,693 thousand (2017: KD 19,543 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 FVOCI". 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.

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 any recent transaction of shares of same entity, market value of a similar investment, or at a conservative discount to its net asset value or book value.

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

	2018 KD 000's	2017 KD 000's
1. Value of investment disclosed in the balance sheet	241,199	200,682
2. Type and nature of investment securities		
Financial assets at FVOCI		
Equity securities -quoted	215,350	170,583
Equity securities -unquoted	25,849	30,099
	241,199	200,682
3. Cumulative realised gain (net) arising from sales of investment securities	-	3,374
4. Total unrealised gain (net) recognised in the balance sheet but not through profit and loss account	44,926	21,168
5. Capital requirements		
Financial assets at FVOCI	44,802	38,232

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:

	2018		2017	
	KD 000's		KD 000's	
	Impact on earnings		Impact on earnings	
	± @ 1%	**± @ 2%**	± @ 1%	± @ 2%
Kuwaiti dinars	**11,572**	**23,144**	9,868	19,736
US dollars	**(880)**	**(1,760)**	812	1,624
Other currencies	**2,308**	**4,616**	2,104	4,208
	± 13,000	**± 26,000**	± 12,784	± 25,568

XII- Remuneration

Board nomination and remuneration committee (BNRC) is composed three non - executive Board members, including Chairperson as appointed by the Board of Directors (Board). Secretary to the Board acts as the secretary to BNRC. BNRC currently comprises of the following non executive Board members.

Mr. Manaf Al-Muhanna
Mr. Musaed Al-Saleh
Dr. Arshid Al Houri

The following are the main roles and responsibilities of BNRC:

1. Establish organisation structure, remuneration and nomination policy of the Group.
2. Review remuneration policy annually to ensure that it remains valid and effective to achieve Group objectives.
3. Amend remuneration policy to incorporate changes if any, stipulated by the Board, the CBK, and other relevant regulatory authorities.
4. Recommend to the Board, quantum and nature of remunerations for the Chief Executive Officer (CEO) and key Executive Management positions.
5. Review and report observations if any, in rules and procedures related to executive management remuneration.
6. Coordinate with Board Risk Management Committee (BRMC), other stake holders to evaluate proposed incentive program.
7. Ensure that variable remuneration and incentive schemes are appropriately aligned to Group objectives.
8. Recommend deviation from Group's remuneration policy during contingent event if any such as, when Group performance metrics are weak.

BNRC may seek assistance for Internal Audit department or an external consultant in order to effectively accomplish its responsibilities. During the year 2018 BNRC was assisted by internal Audit department to review Remuneration Policy.

BNRC met 6 times during 2018. Remuneration paid to BNRC members for 2018 cover their memberships in other Board Committees and any other tasks assigned to them by the Board. Total remuneration KD

466 thousand (2017: KD 530 thousand) paid to members of BOD is disclosed in Bank's annual report on aggregate level according to CBK's instructions related to Corporate Governance.

Remuneration Policy

During 2018 remuneration policy was reviewed by BNRC, which submitted the updated remuneration policy to Board on 20 November 2018. The Board approved remuneration policy as submitted. No material changes were made in the last update presented to the Board.

The remuneration policy is reviewed and updated at least once every 3 years. Further, the remuneration policy is updated to incorporate changes stipulated by the CBK or the Board, as and when such changes are introduced.

The following are the key features and objectives of remuneration policy

a. Key features

The structure of remuneration of all Group's employee consists of combination of fixed and variable remuneration
- Fixed Remuneration - It is made up of basic salary ,allowance and related benefits.
- Variable Remuneration - It represents payment linked to the job requirements and performance.

b. objective

1. Promote effective governance and sound practices of financial remunerations, consistent with overall Group strategy.
2. Attract and retain qualified, skilled and knowledgeable employee required for performing Group's business.
3. Ensures that financial remunerations are appropriately linked to Group's performance.
4. Create remuneration matrix that appropriately links financial remuneration to Group level, nature of job, short and long term risks.

In order to ensure independence of Risk Management, Compliance and Corporate Governance and Internal Audit functions within Group, head of these functions reports directly to various committees of the Board without having reporting line to CEO. The following table shows the functional and administrative reporting lines of these functions.

Function / Division	Function Reporting Line	Administrative Reporting Line
Risk Management	Board Risk Management Committee	Chairman of the Board
Compliance and Corporate Governance	Board Corporate Governance Committee	Chairman of the Board
Internal Audit	Board Audit Committee	Board Audit Committee

Performance appraisal

As per Group policy all employees are appraised atleast once a year for their individual performance. The appraisal process is used to evaluate employees' contribution in achieving Group objectives and to give them feedback on their performance related strengths and weakness.

The performance rating matrix is used for converting individual performance into a rating score based on predefined guidelines. The performance rating score is used for determining merit increase in salary and amount of variable remuneration.

The rating guidelines are applied uniformly across all business lines and individuals.

The annual bonus paid to employees at the end of 2018 is as follows:

	2018	2017
	KD 000's	KD 000's
Amount paid	1,234	1,207
No. of employees	1,115	1,133

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:

	2018		2017	
	No. of Employees	KD 000's	No. of Employees	KD 000's
Amount paid to:				
Kuwaiti employees	105	754	37	470
Non Kuwaiti employees	151	899	176	605

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

	KD 000's			
	2018		2017	
Fixed	Unrestricted	Deferred	Unrestricted	Deferred
Cash-based	2,810	-	2,510	-
Shares and share-linked instruments	-	-	-	-
Other	-	-	-	-
Total fixed	2,810	-	2,510	-

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:

	2018		2017	
	No. of Employees	KD 000's	No. of Employees	KD 000's
Senior Management	13	1,490	13	1,493
Material Risk Takers	12	593	12	535
Financial & Control Functions	14	727	11	482
		2,810		2,510

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)
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
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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