2017

ANNUAL REPORT

Commercial Bank of Kuwait

Al-Tijari

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

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

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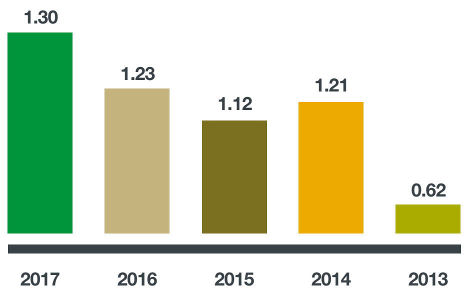
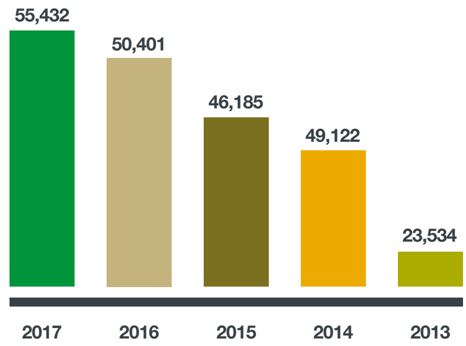
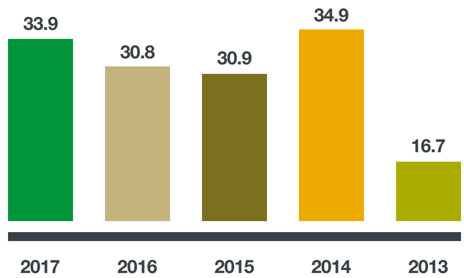
Financial Trends



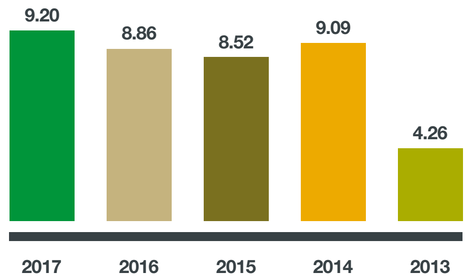
Return on Average Assets %



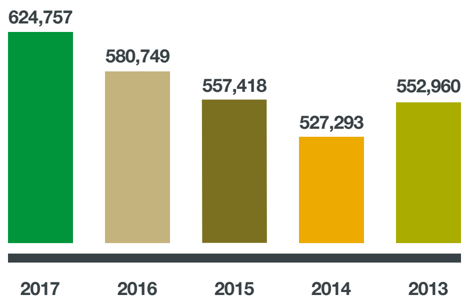
Net Profit Attributable to Shareholders of the Bank
KD 000's



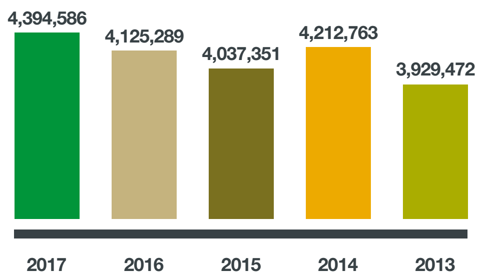
Earning Per Share Attributable to Shareholders of the Parent Bank
Fils Per Share



Return on Shareholders' Equity
(Average) %



Equity Attributable to Shareholders of the Bank
KD 000's



Total Assets
KD 000's

Board of Directors

Mr. Ali Mousa M. Al-Mousa
Chairman

Sheikh. Ahmad Duaij Al Sabah
Vice Chairman

Mr. Abdulrazzak A. Al Kandari
Member

Mr. Abdulrahman Abdullah Al Ali
Member

Dr. Arshid Abdulhadi Al Houri
Member

Mr. Bader Sulaiman Al Ahmad
Member

Mr. Musaed Nuri Al Saleh
Member

Ms. Rasha Y. H. Al Awadhi
Member

Mr. Hazem Meshari Al Khaled
Member

Ms. Mona Mousa Al Sarraf
Member

Mr. Faisal Fahad Al Muzaini
Secretary of the Board of Directors

Introduction

Introduction

Al Tijari ……….. My Choice

In the midst of the considerable developments the banking sector is witnessing whether on local, regional or international arena, the Bank's Management strategic vision and prudent policy proved pivotal and enabled the Bank to benefit and exploit all available growth opportunities along with enhancing its customer-tailored product offerings, and services apart from managing the risks associated with its business activities. Accordingly, the Bank managed, thanks to its Management and its prudent policy, to achieve stable net profit ratios year after year.

The Bank continues its endeavors to remain the Bank of first choice for customers by providing the best-in-class services & products, innovative solutions that employ sophisticated technologies and e-channels along with having in place a professionally skilled staff member. More and above, the Bank remain focused on its core principles as laid down by its Senior Management, namely citizenship, leadership and corporate social responsibility.

Ali Mousa M. Al-Mousa
Chairman

Chairman's Message

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

Our valued shareholders,

I have the pleasure to present today a significant turnaround in Commercial Bank of Kuwait's performance which is crowned by outstanding success achieved by the Bank despite the challenges & difficulties the Bank has faced. The global banking industry, as we all know, undergoes major changes whether in the banking products or the methodologies of delivering services to customers. As such, the Bank was very proactive and realized the importance of rapidly adapting to such changes. The Bank started, sometime back, to introduce the self-service approach and was able to develop self-service related platforms internally. It was expected that some of our customers will not be much enthusiastic to adopt self-service technique for banking with us, while the majority of our customers particularly our corporate segment have opted for this service and commended it. The Bank may be among the forerunners in introducing it in Kuwait but we endeavour to follow & catch up with the worldwide financial institutions which were ahead of us specifically in the advanced countries. The issue is not much complicated and we believe that Kuwaiti banking sector will take the lead in employing the self service tools and in very short time we will see substantial transformation in Kuwait banking industry in form and substance. However, the changes seen in the banking industry, and to which the Bank was highly responsive, have left over positive impact on the Bank's financial results that truly reflect the position of any banking institution. The Bank is now among the best local banks in profitability ratios.

2017 Financial Highlights on the Bank's Business

In view of the above, the results of our strategy, client focused approach, talent development and robust risk management are reflected in the financial statements of the Bank as we reported a net profit of KD 55.4 million in 2017 compared to KD 50.4 in 2016, a growth of 10.0%. These results have reflected positively on the financial performance ratios, where return on average equity reached 9.5% and the return on average assets reached 1.3%. The earnings per share are 33.9 fils (compared to 30.8 fils for the last year). The Bank witnessed a healthy growth in all the key areas of its business. Net interest income grew by 10.4% and fee income grew by 7.8%. The Bank's balance sheet reached KD 4,395 million with a growth of KD 269 million (6.5%). Shareholders' equity reached KD 625 million with a growth of 7.6%. A strong bond and quality loan portfolio helped to improve the assets' yield. Cost of funds was maintained at a reasonably low level. The cost/income ratio is 30.8% for year-ending 31 December 2017, which is amongst the lowest in Kuwaiti banks.

A concentrated effort to recover the previously written-off loans yielded results; KD 33 million were recovered during 2017, while cumulative recovery during the last six years has been KD 138 million.

The Bank's Management focus extended to cover other issues as well. As such and out of its corporate social responsibility, the Bank has taken an initiative to safeguard the funds of orphans & minors. This was illustrated with the Bank's endeavours to maintain & safeguard the funds and savings of customers while they are alive and money of their heirs. The Bank initiated proactive procedures to prevent illegal access to such funds through the direct linkage with the Public Authority for Civil Information (PACI), along with obtaining the daily list of the Departed customers. The Bank's dedicated Systems Development team managed to develop full-fledged program which enables the Bank to have daily access to such lists along with matching & comparing the same with the Bank's customers' base. In case the data of any of the Bank's customers is corresponding with the data included in the said list, the system will automatically deactivate the accounts of this customer and related power of attorney. The system also dispatches notifications to the concerned areas to verify the validity of the procedure and take the necessary action. In this regard, it is worthwhile to hail and highlight the Public Authority for Civil Information's ongoing cooperation with the banking sector where PACI became a platform and a basic element of any integrated technical work that requires access to accurate and secured data.

Future Outlook

The considerable developments seen in banking industry pave the way to new horizons for this industry. The banking industry will continue benefiting from the successive technological advances in the short and long term. It goes without saying that Kuwait banking sector is positioned to satisfy the prospective customer expectations. It is hoped that the development of government legislations & instructions will be attuned to such variables so that the customers can benefit from such developments seen in the banking industry. As a clear manifestation of the development the banking industry has undergone, tools & systems are now in place that can be used by customers to pay for low-value purchases (lower than KD 10) without the need to insert ATM card in the POS terminal e.g. the contactless cards (NFC) which became available for customers to pay for their purchases without the need to insert card in the POS terminal in addition to the e-wallets. Accordingly, the Bank endeavoured to cope with such developments and to plan for the future by issuing contactless cards to all its customers. We look forward to apply the e-wallets system and other tools. The Bank's ambition & endeavours to keep up with the prospective developments are reflected in other services and systems applied at the Bank including for example:

- Upgrading the Smart Queue system where customer's transaction is processed once it becomes ready for processing without the need for customer to wait until serving customer who reached and requested services before him changing the concept of service from First In First Out (FIFO) to First Ready First Out (FRFO).

- Account opening process and issuance of cards and prepaid cards by communicating with Contact Centre agents via Kiosks in addition to other services that are available via kiosks.

The Bank will continue its efforts to upgrade its service and product offering as a number of innovative e-services are still in the pipeline. This will include Smart ATMs & Deposit Machines. Undoubtedly, the cooperation between banks and regulatory authorities will help to streamline & accelerate the development process of banking business, thus positioning Kuwait banking sector at the forefront of regional markets and add more related advantages to this vital sector that will place it within the the advanced banking sectors.

Thanks for our Supporters

In conclusion, I would like to extend my thanks and appreciation to our valued customers for choosing Commercial Bank of Kuwait as a source of their banking services and we promise them to continue our concerted efforts to earn the trust they have in the Bank to process their daily banking transactions and achieve more progress in the future. I would also like to extend my thanks to the Bank's shareholders for their continued support which mainly helped the Bank to considerably increase the volume of its assets and net profitability over the previous years and promise them to continue enhancing the shareholders' value, Executive Management Team and all staff members who are the mainstay of the Bank's success and its most important assets and the regulatory authorities represented in the Central Bank of Kuwait for its sincere efforts in safeguarding the banking and financial sector in the state of Kuwait.

Ali Mousa M. Al-Mousa

Chairman

Executive Management

Executive Management

Elham Yousry Mahfouz
Chief Executive Officer

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

Masud Ul Hassan
Chief Financial Officer - Financial Planning & Control Department

Adli Abdullah Ghazal
GM - Treasury & Investment Division

Abhik Goswami
Chief Risk Officer

Paul Abdoulnour Daoud
GM - Operations Division

Kunal Anirudh Singh
Head - International Banking & Syndication Division

Mohamed Hashem Mohamed Hashem
Legal Advisor to Chairman
GM - Legal Department

Yaqoub Habib Al-Ebrahim
GM- Compliance & Corporate Governance Department

Mona Hussain Al-Abdulrazzaq
GM-Human Resources Department

Sheikha. Nouf Salem Al-Ali Al-Sabah
Head of Advertising & Public Relations Department

Ahmad Mohammad Saif Al Deen Farahat
Chief Internal Auditor

Bader Mohammed Mosleh Qamhiya
Acting GM - ITD

Nawaf Ali Sabah Al-Sabah
Senior Manager - General Services Department

Economic Background

GLOBAL ECONOMY

The global upswing in economic activity is strengthening, with global growth projected to rise to 3.6 percent in 2017 and 3.7 percent in 2018 (as per IMF). Broad-based upward revisions in the euro area, Japan, emerging Asia, emerging Europe, and Russia more than offset downward revisions for the United States and the United Kingdom. But the recovery is not complete: while the baseline outlook is strengthening, growth remains weak in many countries, and inflation is below target in most advanced economies. Commodity exporters, especially of fuel, are particularly hard hit as their adjustment to a sharp stepdown in foreign earnings continues. And while short-term risks are broadly balanced, medium-term risks are still tilted to the downside. For policymakers, the welcome cyclical pickup in global activity provides an ideal window of opportunity to tackle key challenges. US Federal Reserve continues its monetary normalization process and the European Central Bank inches up to its own. Bank of England hiked interest rate in November 2017 as a reversal of preemptive step taken soon after the Brexit in 2016.

However, the major risk remains the geopolitical tension and tightening liquidity situation. If the credit market tightens further, it could trigger a downward review of most asset classes. A closer look suggests that the global recovery may not be sustainable—not all countries are participating, inflation often remains below target with weak wage growth, and the medium-term outlook still disappoints in many parts of the world. The recovery is also vulnerable to serious risks. Financial markets that ignore these risks are susceptible to disruptive repricing, and are sending a misleading message to policymakers.

KUWAIT ECONOMY

The economy grew by an estimated 2.50% in 2017, down from around 3% in 2016 (as per World Bank), mainly due to OPEC related oil production cut. A partial recovery in oil prices over the past year has eased pressure on fiscal balances somewhat. Banking sector liquidity continues to improve. Major infrastructure projects will continue to support growth in the near to medium term. Key challenges include hydro-carbon dependence and parliamentary opposition to deep structural reforms.

The government plans to invest US$115 billion in the oil sector over the next five years, which should also boost oil production starting around 2018. With additional support coming from public-investment spending, growth should rise to about 3.2% over the medium term. Both current account and budgetary pressures should ease on the back of a partial recovery in oil prices and rising output. The baseline assumes gradual implementation of spending and revenue reforms.

KWD interbank money market remained very liquid throughout the year 2017.

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

USDKWD traded in a range of 0.3050 to 0.3010 in 2017.

KUWAIT STOCK MARKET

Kuwait Stock market has outperformed on account of recovery in oil price and better government spending. Index is expected to post additional gains during the year 2018 as well mainly driven by recovery in the oil price and rebound in the oil production.

This year Index touched a 3 year high of 7091in April 2017 and closed at 6408 in December 2017.

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

Review of Operations

Retail Banking Division

Commercial Bank of Kuwait recognizes the importance of keeping up with the latest technology for its retail services offered to its individual customers. Drawing on this, Retail Banking Division (RBD) continued its efforts to keep providing customers with the best-in-class banking services & products and meet its customers' requirements and expectations. For that purpose, RBD took a number of initiatives during 2017 to enhance such approach so that Al-Tijari would remain the bank of choice for customers.

These initiatives included but were not limited to a set of innovative accounts, promotional offers and campaigns, e-channels, digital banking, service quality and product awareness campaign directed mainly to the Bank's retail customer segment.

As for the newly launched products, services and promotion, Al Tijari has launched a set of new products and services during 2017 including the new prepaid card launched by Al-Tijari in cooperation with MasterCard which can be issued instantly at any branch and enjoys all the technical and security features. More importantly, is the Smart Kiosk system which was implemented and deployed in all branches of the Bank. The kiosk includes the process of opening accounts and issuing debit cards & prepaid cards in addition to providing customers with the facility of inquiring about the account, issuing the account statement and processing cheques drawn on other banks.

Additionally, the Bank introduced a new instant payment service known as "InstaPay" for all its customers. Through this service, a account holder at Al-Tijari will be able to invoice any local debit cardholder using Al-Tijari Online/CBK Mobile Application. An SMS request will be generated to the payer to settle the indicated amount for the given description. Upon clicking the link, the payer will be redirected to the Knet Payment Gateway (PG) and the payee will be able to settle the payment from any local debit card. Upon successful transaction, Al-Tijari account holder will be credited instantly. The Bank is providing this service free of charge.

As regarding the promotions and offers launched by the Bank in 2017, the Bank has launched a special promotion for salary transfer targeting Kuwaiti nationals whether newly recruited or in service, where they get the opportunity to enter the quarterly draws on Mercedes cars in addition to an instant gift when transferring their salary to the Bank. Customers were given the chance to choose between a cash prize or the possibility of obtaining an interest-free loan. A marketing campaign accompanied the salary transfer promotion with a view to attract new customers.

Also, a special card campaign was launched under the title "get 100% cash back of the value of your purchases" for credit and prepaid card holders, where draws were arranged and 10 winners were announced in February and March 2017 to get back up to KD 1000 of the value of their purchases using such cards. The promotion was accompanied by a marketing campaign to promote Al-Tijari cards.

Moreover, a three year-round campaign and promotions were launched to promote Al-Tijari MasterCards in cooperation with British Airways in order to encourage customers to avail the benefits of such cards inside and outside Kuwait.

Likewise, “Al-Tijari Offers” Program designated to offer CBK cardholders discounts was launched with a new theme in 2017 and the program’s activities were launched in collaboration with a wide range of restaurants. Many events were carried out to launch the one day discounts, during which the marketing team visited restaurants and approached Bank customers while they were present over there and gave them a chance to get discounts up to 100% when paying with the Bank’s cards.

Within its focus on the kids oriented services and activities, the Bank arranged several promotions for My First Account (MFA) kids, where a recreational ceremony was held in Ramadan on the occasion of Gergean. A Reading camp was also initiated in collaboration with That Al Salasel bookstore in Avenues Mall, in addition to a drawing competition in coordination with Radisson Blu hotel and a special offer “Back to School” with Jarir Bookstore.

To award its credit cardholders in Summer, the Bank conducted six draws to select winners for cruises to Europe and the Caribbean islands. The package included business-class travel and a week on the world’s most luxurious and largest marine vessel in cooperation with Royal Caribbean. This offer was launched for the credit cardholders and those who successfully apply for new credit cards and use them inside and outside Kuwait during the offer period.

Additionally, several awareness campaigns have been launched for the services provided by the Bank, such as the safety deposit boxes, self-service branches and card-using tips during travel and how to stop cheques as well as the distinctive services offered by the bank such as mobile notification, email statement, Starlink plus and e-pin.

Many promotional offers have been made as well for the credit cardholders to offer attractive discounts in cooperation with many luxury outlets as well as hotels and health service providers.

Within its focus on the young customers, the Bank also organized a recreational day for @Tijari account youth customers where they were invited to watch an interesting movie and all the screens at Grand Cinema in Al Hamra Tower were booked in an exclusive offer for @Tijari account holders .

As for the revamped products and services, Al Tijari has revamped and improved some of its services where the loan policy for individuals has been modified, with an increase in the age scope allowed to apply for a loan, in addition to introducing amendments to the terms and conditions for granting loans to residents, with loan amount increasing up to 15 times the salary in consistency with the regulatory instructions.

Moreover, the Personal Assistant Service (Concierge) has been improved by reducing the time required for requesting an airport shuttle to 48 hours instead of 72 hours.

Regarding the E-Channels pertaining to the services offered to the Bank's customers, many new and important features were added to Al-Tijari's E-Channels, in addition to essential updates which were applied to the CBK Mobile application, constituting thus a major improvement in the quality of services provided to the Bank's customers. Such features and updates include:

- ATM Card activation/deactivation for Retail Banking customers
- Corporate Customers can use CBK Mobile to authorize payments, salary transfers and cheques validations
- Touch ID for CBK Mobile
- Face ID for CBK Mobile
- Digital Passcode for CBK Mobile
- Introducing further improvements where Touch ID can be used instead of the password feature for transactions conducted via CBK Mobile
- Web chat on CBK Mobile & www.cbk.com
- Mobile Banking in a new rebranded look
- Credit card view of authorized transactions via CBK Mobile or Al-Tijari Online.
- CBK Mobile Notifications.
- Communication via WhatsApp service on 50888225.
- InstaPay service via CBK Mobile & www.cbk.com

As for Self Service Kiosks and developing the skills of Al Tijari Contact Center's agents as per the internationally recognized standards, the Bank places high importance for training Al-Tijari Contact Center's agents according to the latest international practices and standards so that they can assist customers around-the-clock and immediately answer the inbound voice calls through 1888-225 or through the Self Service Kiosks that serve inward video calls from the branches. This integration of video calls and voice under the same contact center hub had positive results on the services offered to the Bank's customers from the branches or through the Contact Center number 1888-225.

As regarding Service Quality & Product Awareness, a number of tasks have also been assigned to the Service Quality Unit which endeavors to improve customers' product awareness and meet their needs and expectations. These tasks are as detailed per below:

- Conduct tests for direct sales unit on a monthly basis.
- Communicate with customers to inquire about the quality of services provided by companies contracted by Al-Tijari with which the Bank cooperates to offer services to its customers.
- Communicate with customers to inquire about the quality of services provided by the Bank branch staff members when opening new accounts for customers.
- Communicate with customers to inquire about the quality of the services provided by the Bank when processing the loan transaction at all the Bank's branches.
- Visit the branches to train staff and clients on the new self service system and self service kiosks as well.
- Visit the branches and inform the concerned areas of the changes and renovations required for the appearance of the branches.
- Develop a monthly employee assessment for a more accurate and detailed assessment.

Corporate Credit Division

Corporate Credit Division (CCD) 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, CCD continuously provides support to its customers to tide over their temporary cash flow mismatches and meets their specific requirements.

Corporate Credit 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 CCD 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, CCD 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, CCD is also focusing on financing emerging sectors. CCD has participated in syndicated loan arrangements in the oil and gas sector and also extended direct financing in the retail/ consumer sector. Some of the major financing transactions include participation in a syndicated loan arrangement of USD 180 million to finance purchase of 4 vessels, direct financing of USD 175 million for expansion in retail/consumer sector outside Kuwait and financing a project valued at KD 24 million for construction of building in Wafra residential area. CCD had also committed facilities to finance some of the Public Private Partnership (PPP) Projects.

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

International Banking & Syndication Division

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

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

(MNCs) by providing credit facilities specifically tailored to meet requirements for their businesses in Kuwait.

In 2017, 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 overall 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. Further, the Division scaled up the new funded product line viz., structured trade finance which was launched in 2015.

The impending financial closure for some of the major Public Private Partnership (PPP) projects augurs well for the Division's continuing growth in 2018. 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 to identify potential new revenue drivers for the Bank as well as focus on continuously improving operational efficiencies within the Division.

Treasury & Investment Division

Treasury's focus during 2017 was mainly managing Assets and Liabilities of the bank in a timely and cost effective manner. Treasury has managed to post significant growth in their HQLA and Corporate bond Investment portfolio. Given the Basel III norms for maintaining LCR and NSFR, Treasury has successfully created a well defined and diversified currency portfolio.

Treasury has used both domestic and international markets for funding the balance sheet as well as for managing the foreign exchange and interest rate exposures. 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) have helped Treasury to achieve its profitability.

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

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

• Foreign Exchange Desk : Trading & covering in FX Spot/Forward & Swaps;

• Money Market Desk: Taking care of cash flow management, Inter-bank lending/borrowing, fixed income securities, liquidity and other related statutory ratio management;.

• Corporate Desk : Taking care of corporate client's requirements offering various types of Treasury products such as deposits, FX spot, FX forward, FX swaps, interest rate swaps, etc.

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

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

Risk Management Division

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

Risk Management structure and independence:

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

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

The Operational Risk unit is responsible for monitoring, measuring and reporting the operational risks of the Bank. Operational risk unit collects operational risk data through Risk & Control Self Assessment, KRIs, procedure reviews and reported incidents. A loss database is maintained and reported in the periodic risk management reports. Operational risk unit is also responsible for the bank wide insurance management and for coordinating the bank wide Business Continuity Plan and ensuring regular testing. Bank-wide BCP test was conducted successfully in April 2017.

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 was moved under the Risk Management Division in February 2017 and is responsible for screening inward and outward transactions and monitoring the financial activities of the bank's customers' accounts. The unit is also responsible for conducting investigations on suspicious activities and forwarding those suspicious activities to the KFIU (Kuwait Financial Intelligence Unit) if necessary. The Unit is also responsible to handle all questionnaires, queries, and KYCs received from CBK's correspondents. It is also responsible for checking on any new customers to ascertain whether these customers are on any sanctions lists.

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

During 2017 the division was actively involved in the IFRS9 implementation project and was instrumental in developing models and related policies/procedures for calibration of PIT PDs & LGDs for all product segments of the Bank. It was also instrumental in developing the required rules for staging criteria and associated definitions of Exposure at Default (EAD) and Credit Conversion Factors (CCF) for calculation of the Expected Credit Loss (ECL) as per IFRS9 requirements. The Division also helped in the implementation of suitable software selected through assessment of suitable vendors and ensuring proper configuration and testing.

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 name and collateral concentration under Pillar two of Basel III. Measurement of concentration risks uses a model that comprehensively captures name, sector and geographic concentration risks.

b) Market Risk:

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

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

The Bank also assesses the market risk through internally developed Value at Risk (VaR) measures. VaR is based on historical simulation over the relevant observation period and is computed as the maximum possible loss over the relevant holding period at the 99th percentile. Limits are in place for the maximum permitted VaR for the foreign exchange and equity positions. The VaR models are back tested annually to confirm their robustness. In addition, economic capital for market risk, including concentrations therein, is calculated regularly. During the year, in line with the change proposed by BIS in market risk calculation, economic capital calculations for market risk were changed and economic capital is now calculated from “expected loss” instead of VaR.

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

c) Liquidity Risk:

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

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

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

d) Interest Rate Risk:

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

e) Operational Risk:

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

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

f) Other risks

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

Information Technology Department

Information Technology Department during 2017 continues in working on the objective of building relationship with business areas and customer as end user of technology. Systems were developed and enhanced to make the customer feel that CBK endeavors to meet and exceed customers' expectations. The following systems were implemented to achieve this:

- Smart ATM (withdrawal and deposit). Customers are able to deposit and withdraw amounts that they want. Fils and loose bills like KD 1 or KD 5 is accepted in the Smart ATM. Programs are in-house developed and tested providing savings to the Bank which can be used to invest to earn more profit.

- Front end system is enhanced to add more services for the customer can do by themselves with minimal help from the Bank's staff. In this way it minimize the number of staff in the branches as well as empowering the customer to make own of his transactions.

• Account opening is processed by customer with minimal assistance from the Virtual banking agent.

• Issuance or cancellation of prepaid card is made available to the customer to process it their own.

• Deposit of other Banks checks is a function that not only done by the customer but also integrates with the KECCS system. This makes the process faster and more secured.
• Gemalto system is implemented to cater to customers ability to get their cards upon opening of accounts.

- Improvements in the Banks 24/7 applications.
• Finger print authentication is implemented for the mobile banking. This enhances security in the application.
• Ability to deactivate or activate debit cards in the Internet and Mobile banking. Allowing the customer to prevent losses in case he misplace or lost his card. And shortening the process of deactivates his card in case he needs to for emergency purpose.
• ATM security is improved in order to prevent scheming of customer's cards.
• Contactless cards is implemented for the convenience of the customer.
• Developing the platform of Instapay service, the service that gives the customer the ability to collect money from others not necessarily a customer of the Bank.

- Internal application that were implemented for better productivity or compliance to regulatory requirements ;
• Attendance system is implemented in order to integrate employees attendance and salary processing. The system also allowed the Bank to control access to critical areas to those who need access only.
• Incoming Swift messages are processed seamlessly with the implementation of STP from Swift Lite 2 to the Back end
• Swift GPI to better monitor fund transfer done by our credited to other Banks inside or outside Kuwait.
• IFRS 9 to comply with the reporting requirements of Central Bank and other regulatory bodies.

Operations Division

The Operations Division had a remarkable year 2017, marked by several achievements and attainment of a number of key milestones. The Division has been successful in managing overall operational efficiencies through ongoing optimisation, workflow streamlining, monitoring and control processes, thereby providing improved service to both internal and external customers.

Cash Management Centre (CMC)

The Cash Management Centre (CMC) is responsible for ensuring 24/7 cash availability to customers.
The CMC has been successful in providing high availability of cash in the ATMs during peak salary periods, weekends and public holidays. This was achieved with unified ATM loading, daily cash balancing and reconciliation.
The Business Cash Centre is open for extended working hours and during public holidays to facilitate customers' cash requirements.

Operations Processing And Control

This centralised Unit has been successfully managing back-end operations of various financial This centralised Unit has been successfully managing back-end operations of various financial transactions. The Bank has been successful in streamlining and automating various types of transactions to reduce waiting time for the customers and improve efficiency. Further improvements have been done to a number of processes, which include SWIFT remittances, inward and outward cheques processing through the CB KECCS system, Business account opening, standing instructions set-up & processing, collateral management, salaries payments, transfers between accounts, customs fees payments, credit card payments & maintenance, accounts & settlement.

Automation has been done to credit customer accounts for large amounts against credit confirmation from the correspondent banks and for funds to be re-transferred to local banks. Automatic generation of SWIFT messages for standing orders to Ministries / Local bank customers has also been done. These help to reduce the manual intervention and avoid delays in processing.

Improvements have been done to the reconciliation process for cash withdrawal / cash deposit / debit card transactions, which in turn reduced the resolution time for Customer disputes.

Continuous optimization, workflow streamlining, monitoring & control help achieve overall efficiency.

Contact Center

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

'Premier Callback Assist', a dedicated Queue for Premier Customers has been introduced.

In order to improve customer retention, satisfaction and boost customer loyalty, the 'Al Tijari Call Back Assist' has been introduced.

Higher level of efficiency is being achieved by Call Traffic leveling between peak and non-peak times.

Procedure Documentation Unit

The department was able to complete and release several critical procedures during the year, as required by regulatory authorities and business areas (Trade Services, Treasury, Contact Center, Credit Administration, Quality Management and Retail Banking).

Trade Services Department

This is a highly specialized technical unit within Operations, and the staff have specialized training in managing letters of credit (import & export), letters of guarantees, as well as inward bills for collection. The Unit created and implemented a pool concept whereby all staff are conversant with all the products offered.

Treasury And Investment Operations

Treasury & Investment Operations is responsible for processing financial transactions such as Forex , Money market, Derivatives, Investments; Control of Collateral management of Forex Swaps & IRS which requires a range of complex and skilled tasks. The Department plays a key role in supporting the Treasury department. The department has continuous interaction with Internal IT department and external Vendors to attain maximum System efficiency. Continued efforts for a paper-less work environment led to the successful implementation of screen based interface, facilitated web based archiving of settlement records which in turn simplified processes of audit and compliance.

Credit Administration Department

Being a critical unit for the Bank, emphasis has been placed in accurate updating of credit facilities and documentation for the asset customers of the Bank. Efforts are on to automate processes and reduce manual efforts and provide to the Corporate Credit Department in timely manner. During year 2017, extensive efforts have been made in coordination with ITD to protect bank's rights by developing and generating controls reports.

Human Resources Department

"We aim at attracting, developing and retaining talents, while ensuring the implementation of fair and efficient HR practices".

As formulated in its mission statement, The Human Resources Department is committed to continuous improvement, quality excellence and efficiency.

As such, several initiatives were developed and implemented in 2017 in order build and sustain a healthy culture.

The Employee Handbook & Orientation Session

In order to facilitate the integration of new hires and provide them with the required information to facilitate their work, HRD designed a one day orientation session to provide new comers with an overview on CBK history, corporate social responsibility activities and main achievements in addition to introducing them to the Bank's internal policies and code of conduct. Further, HRD embarked on updating the Employee Handbook which will highlight the core policies, procedures and work rules to exiting employees and new hires.

THABER E-learning Portal

In an effort to promote a learning culture at CBK and provide employees with an opportunity to develop their professional skills, The Human Resources Division in collaboration with an international vendor launched "THABER", an e-learning portal incorporating an online library of selected behavioral topics.

Learning & Development

The Learning & Development Unit carried on the implementation of the Talent Management initiative launched in 2016 by providing CBK high potentials with a blended learning approach incorporating high-end classroom programs in addition to e-learning modules to enhance and develop their professional skills.

Recruitment Expansion

This initiative enhanced CBK's recruitment activities using existing platforms and integrating technology to improve efficiency and outcomes.

The Recruitment Unit:

- Implemented the e-recruitment source in order to allow candidates to apply for positions online and save the generated CVs automatically in our database.
- Used online databases (Bayt.com and LinkedIn…) and social media platforms to generate additional CVs as per the set requirements.

Award Programs

In line with CBK's continuous effort to foster employees' motivation, enhance their morale and recognize their effort towards achieving exceptional results; HRD designed Award programs to promote such practice.

Internal Audit Department

The Internal Audit function provides independent oversight of the effectiveness of, and adherence to, the Bank's organizational and procedural controls. It also oversees the effectiveness of, and adherence to, the Bank's compliance and risk management policies and practices.

The Bank has a well-established Internal Audit Department (IAD), which is responsible for independently testing and evaluating all internal controls and ensuring that the operating and business units adhere to internal policies, procedures and regulatory and legal requirements. The audit function also proactively recommends improvements in operational processes and service quality.

Since the beginning of 2015, Internal Audit Department was trying hard to establish solid and cooperative relationships with different Business areas across CBK maintaining the balance between enhancing Business Controls and give required support that would benefit the Business processes as well.

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

Internal Audit Department is always keen to maintain transparent relationships with all CBK Business Stakeholders during all audit phases through different meetings and discussions from the start of the planning phase till the reporting of audit findings phase.

Internal Audit encourages the IAD Staff to study and take a professional audit certificate such as "Certified Internal Auditor".

Compliance & Corporate Governance Department

Compliance & Corporate Governance Department is an independent function which reports directly to the Board Corporate Governance Committee. Compliance & Corporate Governance Department 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 and policies are attuned to 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 also acts as a liaison between the Bank and regulators in relation to the regulatory regulations 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 periodic reports on compliance and corporate governance within the Bank inclusive with the necessary recommendations in this respect. Such reports will be raised to the Board Corporate Governance Committee which will in its turn present the same to the Board of Directors along with submitting the necessary recommendations. The Department undertakes its duties & functions through Compliance Unit and Corporate Governance 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.
• Coordinating 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.
• Follow-up the rectifying actions taken by the Bank's different departments/divisions with regard to any violations/remarks raised by the regulatory authorities.
• Implementing the requirements of the Foreign Account Tax Compliance Act (FATCA).
• Implementing the requirements of the Multilateral Agreement concerning exchange of financial information for tax purposes as signed by the State of Kuwait.

Corporate Governance Unit is responsible for implementing regulators' instructions on the sound Corporate Governance rules. The Unit monitors and verifies the Bank's compliance with the implementation of the requirements & instructions issued by the Central Bank of Kuwait with regard to Corporate Governance rules. The Corporate Governance rules cover disclosure & transparency standards where the Bank endeavors to strictly comply with such standards as per the instructions of both the Central Bank of Kuwait and Capital Markets Authority. The Corporate Governance Unit is tasked with the following duties:
• Take the necessary actions to comply with the Central Bank of Kuwait's requirements & instructions on Corporate Governance rules and related requirements.
• 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.
• 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 2017, Compliance and Corporate Governance Department handled some new requirements, including the following:

• Implementing the requirements of the Multilateral Agreement concerning the automatic exchange of financial information for tax purposes as signed by the State of Kuwait and the Ministerial resolutions issued in this respect. These efforts included the preparation of the account opening form, Know Your Customer form, self certification, and other procedures as applicable within the Bank. The Bank also engaged an audit firm accredited by the Ministry of Finance in Kuwait to validate and confirm the reports and certifications of the Common Reporting Standards as per the related ministerial resolutions issued in this regard.

• Complying with the implementation of the resolutions and circulars of the Capital Markets Authority and Boursa Kuwait which were issued during the year regarding the rights related to stock ownership (corporate actions) under Post-Trading System (first transition stage), in addition to dealing with the online disclosure system as applied by Boursa Kuwait Company.

Legal Department

The Bank's in-house Legal Department assumes an effective role in providing the Bank's diverse departments and divisions with the professional legal services in such a way that satisfies their requirements, safeguards the interests of the Bank and its shareholders and customers, maintains its corporate image and helps the Bank to compete & outperform its local peers for having a leading edge and enhancing its important role and position in banking industry. Thus, Legal Department endeavors, through a professional working environment and clear objectives, to swiftly render the required legal services in such a professional manner and this was clearly manifested and occurred frequently in 2017.

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

The Department, with the units under its supervision, has achieved its objectives where it managed to collect amounts in relation to the non-performing loans in 2017.

Furthermore, Legal Department endeavors to provide the Board of Directors, Executive Management and the Bank's diverse departments and branches, expeditiously and on accurate and flexible basis, with the required legal advice and opinions in accordance with the provisions of laws, regulations & 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 and documents related to the Bank's business always come among the Department's priorities for organizing the relationship between the Bank and its customers through appropriate and well-balanced legal framework. However, and when necessary, the Department endeavors to update the Bank's forms & documents from legal perspective to cope with the developments seen in banking industry and to meet the Bank's requirements and its customers' needs.

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

Additionally, the Department works closely to put in place an effective mechanism to rapidly entertain & 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 Department has also an objective which is similarly important as those mentioned above, namely to contribute in getting staff members, particularly the new recruits at the Bank's different departments and branches familiarized and aware of the legal issues & matters pertaining to banking business.

Advertising & Public Relations Department

The Bank's Advertising and Public Relations Department has remained in 2017 dedicated to highlighting and demonstrating the caring face of Commercial Bank of Kuwait and its remarkable role in supporting corporate social responsibility programs. The Department continued to be in the heart of society related events by offering sponsorship and support to several societal activities and events to the benefit of all society segments.

The Bank's social responsibility message is always translated in the social activity programs arranged by the Bank and the sponsorship offered by Advertising & PR Department to a number of educational, cultural, social, sporting related activities and others in 2017. This comes out to further illustrate that the Bank is an integral part of Kuwaiti society and the core success of its social responsibility endeavors lies in the support rendered to strengthen its social ties with civil society and non-profit institutions.

Within the environment preservation efforts initiated by the Bank, Advertising & Public Relations Department in cooperation with the Kuwait Society for the Protection of Animals and their Habitat patronized "Desert Cleanup and Replanting" Campaign under the caption "Let Us Be Heroes". The campaign aimed to raise awareness of the importance of replanting and keeping the desert clean. This initiative came in completion to KSPATH's Beaches Cleanup Campaign previously launched under marine environment protection & wildlife conservation programs and activities.

Furthermore, Adverting & PR Department had a pivotal role in offering sponsorship and support to all societal and humanitarian activities throughout the year. This role was clearly manifested during the Holy Month of Ramadan which saw several philanthropic and humanitarian activities arranged by the Bank, the most important of which was the Campaign captioned "Contribute in Printing a Copy of the Qur'an for Each Blind" for contributing in printing the Holy Qur'an in Braille Manner for the blind in collaboration with Kuwait Blind Association.

At another front, the Department continued its annual humanitarian initiative under "Hawwen Alaihom" Campaign designated to provide assistance and support to the road cleaners and construction workers in their work locations during summer and winter - this Campaign which was selected and named for GCC-CSR Award. The Campaign has proved to be extremely successful by attracting several followers of the Bank's social media networks.

As an ongoing yearly practice, the Bank has issued its annual calendar which remains an icon of the Bank's contributions to the revival of the old Kuwaiti heritage. It is known that the calendar mirrors vivid scenes from the traditions and customs of ancestors and forefathers in the past. Within the same context, the Department continued to launch "Ya Zeen Turathna" Campaign in view of the great success it achieved over the past years. This Campaign is meant to revive the old Kuwaiti heritage and educate the present and future generations of the worth-highlighting traditions and glorious deeds of Kuwaiti ancestors to keep the essence of the past with its memories present in minds so as not to vanish with the ever-changing life cycle.

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

Underpinning the comprehensive social responsibility, Advertising & PR Department offered support and sponsorship for the activities organized by the six Governorates of Kuwait (Capital, Hawalli, Farwaniya, Ahmadi, Mubarak Al- Kabeer and Jahraa) in 2017. Stemming from the Bank's belief that its success and community development go hand in hand, the Bank offered financial contribution for each Governorate to support all social, cultural, educational and sporting activities organized by Kuwait Governorates.

As for the in-house activities, Advertising and Public Relations Department 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. The Department, further, had a positive role in creating friendly and amicable atmosphere among the Bank staff members by organizing celebrations of the National Day of Kuwait in which the Bank's executives shared staff members their happiness of this important occasion for all nationals and residents alike.

Given the diversity of the Bank's activities in the area of social responsibility, Advertising and Public Relations Department issued a booklet highlighting all societal activities and events organized and patronized by the Bank during the year 2017.

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 2017, 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 other stakeholders. The Bank has in place a well-defined Corporate Governance structure and updates the existing bylaws and policies to ensure compliance with the Central Bank of Kuwait's requirements.

The Bank adopts the utmost degree of transparency and discloses all material information related to the Bank according to 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.

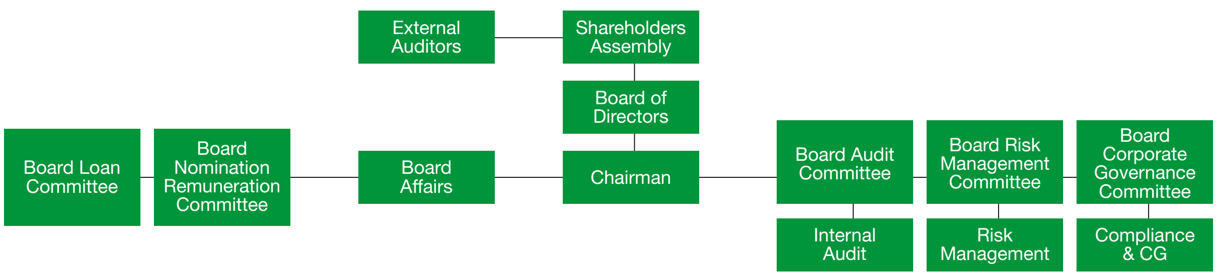
Second: Shareholders with a Percentage of the Bank's Share Capital

Presented below are the shareholders whose ownership exceeding 5% of the Bank's capital based on the shareholders register as at the end of 2017:

Al Sharq Holding Company	23.221%

Third: Corporate Governance Structure

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



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

The Board of Directors is composed of 10 Members elected through secret ballot for a term of three years in the General Meeting by the shareholders. 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 knowledge 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 brief on the Bank's Board Members:

Mr. Ali Mousa Al Mousa – Chairman

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

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

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

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

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

Sheikh / Ahmad Duaij Al Sabah - Vice Chairman

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

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

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

In addition to being a Member in the Bank's Board of Directors since 29/4/2012 and the Vice Chairman since 4/4/2015, he is the Chairman of Board Corporate Governance Committee and is also a Member in the Board Loans Committee.

Mr. Abdulrazzaq Abdulqader Al Kandari

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

- Syria during the period from 1981 to 1985.
- Egypt during the period from 1985 to 1992.
- Spain during the period from 1992 to 1995.
- Lebanon during the period from 1995 to 1998.
- United Arab Emirates during the period from 2004 to 2006.
- Switzerland during the period from 2006 to 2008.

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

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

Mr. Abdulrahman Abdullah Al Ali

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

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

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

Mr. Bader Sulaiman Al Ahmad

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

- Accounting Controller / Civil Service Commission (1983 – 1985).
- Member of the Saudi Organization for Certified Public Accountants in Saudi Arabia (Riyadh) No. 212 on 14/9/1407H.

- Analyst of Companies' balance sheets / Kuwait Stock Exchange (1985 – 1986).
- Deputy Manager, Catering Department / Kuwait Aviation Service Company (1986 – 2002).
- General Manager, United Poultry Company (2007 – 2008).
- Manager, Safway General Trading & Contracting Company since 1989 to date.
- Deputy Chairman of Commercial Bank of Kuwait during the period from 7/4/2010 until 11/5/2010.
- Chairman of Commercial Bank of Kuwait during the period from 11/5/2010 until 23/3/2011.
- Board Member in Commercial Bank of Kuwait during the period from 23/3/2011 until 29/4/2012.
- Board Member in Securities Group Company since year 2000 to date.

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

Dr. Arshid Abdulhadi Al Houri

Dr. Arshid is a Kuwaiti national holding bachelor of Law & Legislation from Kuwait University in 1986 and high diploma in Administrative Law 1993 -1994 from the Police Academy - Egypt and he also held Master in Administrative law 1996 / Cairo University - Egypt and a PHD in law (public law – Administrative law) 2001 / Ain Shams University - Egypt. Dr. Arshid experience extends to several years during which he occupied a number of positions including the following:

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

Dr. Arshid was also a Board Member in Tijari Investment Company- CBK Capital from 2010 – 2013 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 to date.

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

Mr. Musaed Nuri Al Saleh

Mr. Musaed is a Kuwaiti national holding a bachelor 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 19 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 being a Board Member in Commercial Bank of Kuwait since 30/9/2014, Mr. Musaed Al Saleh is a Member in both the Board Loans Committee and the Board Risk Management Committee.

Mr. Hazem Meshari Al Khaled

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

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

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

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

Ms. Rasha Yousef Al Awadhi

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

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

- 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 to date.

- General Manager - First Kuwaiti Educational Services Company since 2010 to date.

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

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

Ms. Mona Mousa Al Sarraf

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

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

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

Main Roles & Responsibilities of the Board of Directors

The Board of Directors has overall responsibility for the Bank. This will cover overseeing the Bank's strategic objectives, approving business plans, setting up the Bank's risk strategy & appetite, 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 its governance, enhancing internal control systems, internal & external audits and other roles and responsibilities shouldered by the Board under laws, regulations and regulatory instructions & resolutions.

Key Achievements of the Board of Directors for the year 2017

• Approve the Bank's strategy & business plan (2017 – 2019).
• Approve risk management strategy (2017 – 2019).
• Periodic review of risk management strategy.
• Continued review of the Bank's organizational structure along with approving the amendments introduced on the same.
• Review and approve the Bank's quarterly & annually financial statements.
• Review Capital Adequacy and stress testing reports as well as risk management's periodic reports.
• Review and approve the stress testing methodology.
• Approve the Bank's budget.
• Approve the Digital Banking Strategy (2022).
• Approve the updates to the bylaws of the Board committees.
• Approve the updates to the Corporate Governance policies.
• Approve the updates to the diverse policies governing the Bank's business.
• Approve the succession plan.
• Review the periodic reports pertaining to the Bank's diverse business activities.
• Review the periodic reports pertaining to roles & responsibilities of the Board committees along with monitoring the duties of such committees.
• Review the performance of the credit & investment portfolios.
• Follow up all remarks raised by regulators along and the necessary action taking in this regard.
• Follow up all developments related to legal proceedings initiated for safeguarding the Bank's rights.
• Review the External Auditor's Internal Control Review (ICR) report for the year 2016 and follow-up reports prepared in this regard.
• Follow up the implementation of FATCA Law requirements and the multilateral competent authority agreement (MCAA) on implementing the automated exchange of financial information in tax matters (CRS) signed by the State of Kuwait as well as the local ministerial resolutions issued in this regard.
• Follow up the application of IFRS9 requirements.

Fifth: The Board Committees, their Main Roles & 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 oversee 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, as below:

Board Corporate Governance Committee	
Composition	• Sheikh / Ahmad Duaij Al Sabah – Chairperson • Mr. Abdulrahman Abdullah Al Ali • Ms. Rasha Yousef Al Awadhi • Mr. Hazem Meshari Al Khaled
Main Roles & Responsibilities	• Prepare & update a comprehensive 'Corporate Governance Manual' to be approved by the Board of Directors, covering at minimum the rules and regulations as required by the Central Bank instructions relevant to CG. A brief of main features, rules of the manual shall be published on the bank's website with the Chairman's of the Board prior approval. • Review on annual basis the rules and regula-tions contained in the corporate governance manual to ensure proper implementation and reporting the same to the Board of Directors. • Ensure that the CG report within the annual re-port of the Bank contains the extent of the Bank compliance with the corporate governance man-ual and stating the reasons for non-compliance if any. • Proposing to the Board any amendments in the articles of association related to Corporate Gov-ernance. • Definition of roles and responsibilities of the Chairman of the Board and the CEO, taking into consideration the separation of those two posi-tions and their independency. • Review Corporate Governance policies such as Code of Conduct, the Insider Trading policy, Re-lated Parties Transactions, conflict of interests, disclosure & transparency and Whistle Blowing.
Key Achievements in 2017	• Ongoing review of the Bank's Corporate Governance Manual and verifies that the Bank is in compliance with the contents of this manual. • Review the comprehensive of Corporate Governance manual index. • Approved Corporate Governance Unit's 2017 business plan. • Review of the updates to transactions with related party policy. • Review of the updates to the insider trading policy. • Review of the updates made to whistle blowing policy. • Review of compliance policy. • Review the annual reports relevant to the Bank's Corporate Governance & Compliance as prepared for the year 2016.

Board Audit Committee	
Composition	• Mr. Bader Sulaiman Al Ahmad – Chairperson • Dr. Arshid Abdulhadi Al Houri • Ms. Rasha Yousef Al Awadhi • Mr. Hazem Meshari Al Khaled
Main Roles & Responsibilities	• Review the scope, results and adequacy of Bank's internal and external audit. • Review of accounting issues which have a sig-nificant impact on the Banks financial state-ments. • Review of internal controls & systems and to ensure the adequacy of resources allocated to control functions. • Oversee and support independency of Internal Audit function. • Review of Financial statements of the Bank prior to its submission to the board of directors (BOD), including the adequacy of provisions. • To ensure the Banks compliance with all Laws, resolutions and regulatory instructions which are related to Banking activities and are issued by competent authorities within the state of Kuwait • Assigned the duties & responsibilities pertaining to internal & external audit and internal control systems.
Key Achievements in 2017	• Periodic review of quarterly and annually financial statements. • Review and follow up the External Auditor's ICR report for the year 2016 along with monitoring the follow-up reports prepared in this regard. • Review the updates to the Board Audit Committee's bylaws. • Review and follow up the reports prepared by Internal Audit Department. • Following up implementation of the 2017 audit plan as approved by the BAC and the latest updates on the same. • Review the external audit plan report issued by the External Auditors for the year 2017. • Review of 2018 internal audit plan.

Board Risk Management Committee	
Composition	• Mr. Abdulrahman Abdullah Al Ali – Chairperson • Mr. Musaed Nuri Al Saleh • Ms. Mona Mousa Al Sarraf
Main Roles & Responsibilities	• Review the Bank's present and future risk strategy and appetite before the Board approval, and advise the Board in this respect. • Review Risk Management policies before submission to the Board for approval. • Monitor the Executive Management's implementation of the risk strategy and policy • Reviewing reports related to risk associated with the bank's subsidiaries, and reviewing policies related to such risks before submitting the same to the Board. • Review periodic risk reports presented by Risk Management Department on risk exposures and adherence to various risk limits, the calculation of economic capital and stress testing.
Key Achievements in 2017	• 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. • Review on capital adequacy and stress testing related reports as well as Risk Management Division's periodic reports. • Review analyze corporate credit, IBD, retail lending and investments portfolios. • Review the reports pertaining to the risks associated with subsidiaries. • Review stress testing methodology. • Review the updates made to BRMC's bylaws. • Review risk management policies before submission to the Board of Directors for approval.

Board Nomination & Remuneration Committee	
Composition	• Mr. Abdulrazzaq Abdulqader Al Kandari – Chairperson • Mr. Bader Sulaiman Al Ahmad • Dr. Arshid Abdulhadi Al Houri
Main Roles & Responsibilities	• Give recommendations to the board regarding the nomination for board membership pursuant to CB's instructions setting nomination controls for board membership • Conduct an annual review on the required needs for board membership and preparing de-scriptions for the capabilities and skills required for board membership • Conduct an annual assessment of the board's overall performance and performance of each board member. • Ensuring that board members are continuously updated with the latest topics/developments re-lated to banking business, through appropriate means. • Review / Update the Bank's remuneration policy on an annual basis and raise recommendations to the Board of Directors for approval on the up-dates / amendments to be made to this policy. • Periodically evaluate the sufficiency and effec-tiveness of the remunerations policy to ensure the achievement of its declared objectives. • Recommending to the board regarding the level and components of the remunerations of the CEO and his/her deputies & assistants, (Key Managements) • Ensure that 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 from one side and in line with Corporate Gov-ernance rules as per the Central Bank of Ku-wait's instructions from the other side. • Conduct an independence review for the remu-nerations policy annually or at the Board's re-quest. This can be done through IAD or an ex-ternal consultant.
Key Achievements in 2017	• Assessed the performance of the Board of Directors and performance of each individual Board Member. • Review the succession plan before submission to the Board of Directors for approval. • Periodic review of the Bank's remunerations policy before submission to the Board of Directors for approval. • Review of the Board of Directors nomination forms for the upcoming term (2018 – 2020) and raised recommendations to the Board of Directors with regard to the nominees. • Conducted review of Internal Audit Department's report on assessment of sufficiency and effectiveness of remuneration policy.

Board Loan Committee	
Composition	• Mr. Ali Mousa Al Mousa – Chairperson • Sheikh / Ahmad Duaij Al Sabah • Mr. Abdulrazzaq Abdulqader Al Kandari • Mr. Musaed Nuri Al Saleh • Ms. Mona Mousa Al Sarraf
Main Roles & Responsibilities	• Review and amend the credit policy. • Review, revise and approve the credit limits assigned for countries and the prescribed counter parties' limits for banks. • Review, revise and approve the foreign exchange limits (FX Limits). • Review, revise and approve to extend, renew and reschedule the credit facilities. • Give the approvals pertaining to credit facilities as per the approved Bank's credit policy and the applicable legislations & relevant Central Bank of Kuwait's instructions.
Key Achievements in 2017	• Review and amendment of the credit policy. • Review and approve the credit facilities within the limits prescribed by the Board of Directors. • Monitoring the position of the Bank's credit portfolio and related risks.

Sixth: Meetings of Board of Directors & its 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 2017 along with an outline of the frequency of participation by the Board Members in such meetings.

Total Number of Meetings Held During 2017	Board of Directors	BCGC	BRMC	BAC	BNRC	BLC	Total Number of Meetings Attended by Board Members
	15	2	6	8	3	39	**73**
Board Members	**Number of Meetings Attended by the Board Members**						
Ali Al-Mousa	**14**					**33**	**47**
Sheikh/ Ahmad Al Sabah	**12**	**2**				**34**	**48**
Abdulrazzaq Al Kandari	**14**				**3**	**31**	**48**
Abdulrahmn Al-Ali	**14**	**0**	**6**				**20**
Bader Al Ahmad	**14**	**1**		**8**	**3**		**26**
Dr. Arshid Al Houri	**14**	**1**		**7**	**3**		**25**
Musaed Al Saleh	**13**		**4**			**32**	**49**
Hazem Al Khaled	**10**	**1**		**5**			**16**
Rasha Al Awadhi	**14**	**2**		**8**			**24**
Mona Al Sarraf	**13**		**5**			**35**	**53**

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 assessment is presented to the Board of Directors for review & approval of the same and 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 roles & responsibilities.

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

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

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

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

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

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

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

As per the Central Bank of Kuwait's instructions, an independent External Auditor should be engaged to assess the internal control systems at the bank. As such, and during the year 2017, 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 2016. The audit firm's report prepared on 21/6/2017 stated that accounting records and other records and internal control systems of the Group have properly been prepared and maintained in compliance with the requirements of the general guideline manual issued by the Central Bank of Kuwait on 14/11/1996 and the Central Bank of Kuwait's circular dated 28/2/2017 and that the raised findings have no substantial impact on the Group's fair presentation of the financial statements. The report, further, emphasized that the actions taken by the Group to address the said findings including those raised in previous years are satisfactory. Here below is the said report.

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

21 June, 2017

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 30 March 2017., we have examined the accounting and other records and internal control systems of Commercial Bank of Kuwait S.A.K.('the Bank') for the year ended 31 December 2016:

- Al-Tijari Brokerage Company

We covered the following areas of the Bank:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 28 February 2017 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

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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 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 accompanying report, and having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2015, 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 28 February 2017.,

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 2016, 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

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Tenth: Corporate Values & Ethics

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

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

Code of Conduct

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

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

Conflict of Interests

The Bank endeavors to implement Conflict of Interests Policy as approved by the Board of Directors. Concurrently, and under supervision of the Board Corporate Governance Committee and the Board of Directors, the Bank periodically reviews this policy in consistency with nature of the Bank's business and developments seen in legislation and regulatory instructions. In addition, the Bank employs a set of procedures and use 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 in the same terms as applied by the Bank towards other non-related parties without any preferential terms by implementing policy covering Transactions with Related Parties as approved by the Board of Directors. Furthermore, and under the supervision of the Board Corporate Governance Committee and the Board of Directors, the Bank periodically reviews this policy in consistency with nature of the Bank's business and the progress seen in regulatory instructions. In addition, the Bank adopts a set of procedures and uses forms & records regulating related parties transactions.

Confidentiality

The Board of Directors, Executive Management and employees endeavor to preserve and maintain confidentiality of information and data 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 controls which maintain and preserve the confidentiality of information as per the policies approved by the Board of Directors in this regard and the internal control systems.

Whistle Blowing

The Whistle Blowing Policy approved by the Board of Directors is meant to 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 create a mechanism that enable & encourage them to communicate their concerns regarding any violations or infringements related to 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 in the Bank in a manner that raises certain suspicions or concerns. This policy allows employees to directly contact the Chairman regarding such concerns and it also provides protection to those employees.

Eleventh: Remunerations Policy

The Bank has in place a remunerations 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 28/11/2017.

Summary on Remuneration Policy

The objectives of Remuneration Policy are as follows:

1.Promote effective governance and sound practices of the financial remunerations system consistent with risk strategy.

2.Attract and retain highly qualified, skilled and knowledgeable professionals required for performing the banking business.

3.Ensure that financial remunerations 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 employees to match risks on the long term.

Major Features of the Remuneration Policy:

1.The Bank adopts remuneration policy that apply to all the employees of the Bank by adopting a system that will classify, appraise and describe all jobs that should be occupied by the employees who have the expertise and skills that commensurate with the said system.

2.The policy will take into account the legal and regulatory requirements in addition to the rules and laws enforceable in Kuwait as well as the level and range of salaries and remuneration in the banking and financial sector when determining the level of salaries and remuneration in the Bank.

3.Remunerations are divided into fixed remunerations which include basic salary, allowances & fixed package and variable remunerations which are related to performance.

4.The variable remunerations are divided into payable remunerations which are paid to the employees after the end of each financial year based on the Bank's financial performance and the valuations and measurement of the employees performance during this year and after obtaining the Board of Directors' approval and deferred remunerations which may be paid to the employees for up to a maximum period of 3 years as per the methods, ratios and entitled employees specified set by the Board of Directors.

5.The principle of "Claw back" is applied to the variable remunerations (Deferred) to be adjusted or recovered in exceptional cases such as weak/negative financial performance of the Bank.

6.As per the Bank's Organizational Structure, Compliance & Corporate Governance Department and Risk Management Department report to the Board Corporate Governance Committee and Board Risk Management Committee respectively while Internal Audit Department report to the Board Audit Committee. However, and from the management perspective, the three Departments work with a direct reporting line to the Chairman of the Board who in his turn prepares the performance appraisal of heads of both Compliance & Corporate Governance Department and Risk Management Department while the Board Audit Committee prepares the performance appraisal of the Head of Internal Audit Department. As such, the CEO will not have any role in the performance appraisal of the above mentioned heads. Thus, the promotions and remunerations that will be decided and determined by Senior Management at the Bank will count on such performance appraisal.

Twelfth: Disclosure of Remunerations for the Year 2017

Board of Directors

Remunerations totaling KD 530 thousand have been paid to the Chairman and the Board Members during the year 2017 in consideration for the tasks assigned to them and which include their participation in the Board Committees. The Board of Directors' remunerations are disclosed in the annual financial statements of the Bank.

Executive Management

Remunerations totaling KD 770,466 have been paid to five Top Executives who have received the highest remunerations during the year 2017. The above amount also includes the remuneration paid to Chief Risk Officer and Chief Internal Auditor.

Remunerations based on staff members' categories

Category	Number of Staff	Total Remunerations	Remarks
Jobs subject to the Central Bank of Kuwait's ap-proval	8	KD 782,305	Including the CEO and the executives whose ap-pointment is subject to the Central Bank of Ku-wait's approval.
Supervisory positions in Financial Control Department and Risk Management Division	13	KD 421,973	Including supervisory positions in Financial Control Department and Risk Management Division.
Positions with authorities for taking decisions on the issues related to risk exposures.	27	KD 2,400,983	Including supervisory positions with authorities in relation to financial issues in the Bank's business areas such as Retail Banking Division, Corporate Credit, Treasury & Investment, and International Banking & Syndication Division.

• Remunerations include basic salary, allowances and fixed remunerations such as grade allowance, housing, transport/car, education, medical insurance, airline tickets, terminal gratuity and other remunerations as agreed on in the employment contract.
• The remunerations currently paid by the Bank to its staff members include fixed remunerations and variable remunerations, if any.
• Remunerations are paid to the employees by crediting the concerned staff account of the remunerations amount.

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

- The Bank has complied with the Central Bank of Kuwait's instructions on Corporate Governance rules and the approved Corporate Governance Manual applicable with the Bank by preparing and completing all byelaws and policies pertaining to Corporate Governance regulations and getting the same approved within the deadline specified by the Central Bank of Kuwait in the related instructions. The Bank, further, updates these byelaws & policies on a periodic basis.

- The Bank has taken the required actions to ensure the proper implementation of Corporate Governance rules and has composed the Board Committees that shall follow up and monitor the implementation of Corporate Governance requirements.
- The Code of Conduct and its related policies are circulated to the Board Members and all staff members at the Bank along with obtaining their signatures for compliance with its contents.
- Internal Audit Department, as an independent function from the Executive Management, shall audit and review the extent to which Corporate Governance rules are properly implemented and submit its report in this regard to the Board Audit Committee which, in its turn, presents the same to the Board of Directors.
- An independent External Auditor is engaged to assess the internal control systems including the extent of the Bank's compliance with Corporate Governance rules where the External Auditor's ICR report is sent to the Central Bank of Kuwait. It is to be noted that the External Auditor's 2016 report has not included any remarks on Corporate Governance rules.

Fourteenth: Executive Committees

The Bank's organizational structure comprises 6 executive management committees:

1. Credit & Investment Committee

The Credit & Investment Committee is responsible for conducting review of all credit & investment proposals 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.

3. Provisioning Committee

The Provisioning Committee is responsible for analyzing, assessing and identifying the required provisions against the Bank's assets 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 along with monitoring the required procedures for implementation thereof.

5. Purchasing & Tender Committee

The Purchasing & Tender Committee is responsible for reviewing the purchasing and selecting tenders before presenting the same to the Bank's Senior Management for approval.

6. Management Committee

This committee comprises all the Bank's Divisions /Departments' Heads. 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 & plans. 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 and she is a Member in the legal bankers Institute in London. Ms. Elham joined Commercial Bank of Kuwait in the year 2000 as Manager – International Banking and progressively held top-executive positions holding the position of GM – New York Branch, Acting GM – International Banking, GM – International Banking in December 2010 and she was promoted as Deputy CEO in April 2012 and was appointed as the CEO of the Bank on 20/11/2014.

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

Sahar Abdulaziz Al-Rumaih

GM- Corporate Credit Division

Acting GM – Retail Banking Division

Ms. Sahar is a banker holding a Bachelor degree in Economy 1988 / Kuwait University and possesses more than 29 year experience in corporate credit. Ms. Sahar joined Commercial Bank of Kuwait in the year 2000 after working about 12 years in other Kuwaiti financial institutions. Ms. Sahar manages, in cooperation with her taskforce, the Bank's credit portfolio. Further, she was assigned, effective from 9/12/2015, to take over responsibilities as Acting General Manager - Retail Banking Division in addition to her responsibilities as General Manager - Corporate Credit Division.

Adli Abdulla Ghazal

GM - Treasury & Investment

Mr. Adli is a banker holding a Bachelor of Commerce 1971 / Beirut Arab University - Lebanon. Mr. Adli joined Commercial Bank of Kuwait in the year 2001 as Senior Manager - Treasury and he has banking experience of more than 41 years in treasury business and financing & liquidity in Kuwaiti banks. Mr. Adli progressively held many positions and he now holds the position of GM – Treasury & Investment.

Yaqoub H. Al-Ebrahim

GM - Compliance & Corporate Governance

Mr. Yaqoub is of Kuwaiti nationality and held a Bachelor degree with honor degree in Accounting 1980 / Long Island University, New York - USA. Mr. Yaqoub has professional experience of about 35 years mostly acquired during his career in the Central Bank of Kuwait where he held the position of Director, On-Site Supervision Department and he was a Member in the National Committee for AML & CFT. Mr. Yaqoub was also a Board Member of financial and non-financial companies, besides being a Member in a number of local and regional committees. He joined Commercial Bank of Kuwait in December 2011 as General Manager – Compliance & Corporate Governance and held the position of Secretary to the Board and all Board Committees during the period from December 2014 to November 2015. Mr. Yaqoub is also the Bank's official spokesman besides being Secretary to the Board Corporate Governance Committee.

Masud Ul-Hassan Khalid

Chief Financial Officer - Financial Planning & Control

Mr. Masud is an accountant holding a Bachelor of Commerce 1981 / University of Punjab, Lahore, Pakistan and also obtained a diploma in International Financial Reporting Standards and he is a Fellow Member in the Institute of Costs & Management Accountants in Pakistan. Mr. Masud possesses an experience of more than 23 years in banking industry. He joined the Bank in 1992 and enjoys sound analytical skills, financial & management reporting potentials and preparing of budgets and the reports required by regulators and the Central Bank of Kuwait.

Mohamed Hashem Mohamed

Legal Advisor to the Chairman and General Manager - Legal Department

Mr. Mohamed held a Master degree in International Trade & Investment Laws 1997 / Cairo University and he is a lawyer enrolled in the roll of lawyers admitted to plead before the Court of Cassation, Supreme Administrative Court and Supreme Constitutional Court. Mr. Mohamed's experience exceeds 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.

Paul Daoud

General Manager – Operations

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 and he held the position of General Manager, RBD. Effective from 9/12/2015, Mr. Paul was assigned to take over the responsibilities of Acting GM – Operation, then he was appointed as permanent & confirmed GM – Operations commencing from 28/6/2016.

Ahmed Mohamed Farahat

Chief Internal Auditor

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

Mr. Ahmad held diverse positions in both audit and risk areas at different banks and companies in Kuwait, United Arab Emirates and Egypt. Mr. Ahmad's experience extends to about 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 and was appointed as Chief Internal Auditor in 25/10/2015.

Abhik Goswami

Chief Risk Officer

Mr. Abhik held a BTECH 1989 from Indian Institute of Technology / India and a MBA (PGDM) 1992 from Indian Institute of Management. He also obtained a Chartered Financial Analyst (CFA) certification 2004 from CFA Institute (USA) and a Financial Risk Manager (FRM) certification 2002 on Enterprise Wide Risk Management from Global Association of Risk Professionals, USA.

Mr. Abhik has 25 years experience in the banking sector, with over 16 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.

Mona Hussain Al-Abdulrazzaq

GM – Human Resources Department

Ms. Mona obtained a Bachelor degree in Computer Science 1986 / Kuwait University and she has professional experience which extends to 23 years in human resources, media and business development areas. Ms. Mona joined the Bank in November 2015 as GM – Human Resources Division.

Ms. Mona held a number of positions in public & private sectors in Kuwait & United Arab Emirates such as her position as Media Advisor for H.E. the Minister of Commerce & Industry in Kuwait, HR Director - Tony Blair Project with Prime Minister's Office / Government of Kuwait and Executive Manager - Recruitment & Manpower/ Al Ahli Bank of Kuwait. Further, Ms. Mona worked at Kuwait Airways Corporation for a long time and also worked in other institutions in Kuwait.

Bader 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.

Kunal Anirudh Singh

Head of International Banking and Syndication Division

Mr. Kunal obtained MBA /2003 from ICFAI Business School (India) and Chartered Financial Analyst (CFA) Certification/2013 from CFA Institute (US). In addition, he has obtained several specialized certifications in the field of Derivatives, Valuations, and Mutual Funds. He has over 14 years of experience which he acquired during his career at a number of financial institutions such as KAMCO Investment Company, Goldman Sachs and Albazie RSM International.

Sixteenth: Corporate Social Responsibility

Within the Bank's social responsibility efforts that are always accentuated through its ongoing participation in social, humanitarian and philanthropic activities which benefit different segments of the society, the Bank, through its Advertising & PR Department, continued its efforts to emphasize and highlight the social responsibility programs designated for the benefit of all society segments.

In this context and during the year 2017, the Bank has consistently enhanced 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 where such cooperation has yielded a great success of the societal activities organized by Kuwait Governorates for their inhabitants under the Bank's sponsorship.

Recognizing the importance of offering all support and care for the people with special needs, the Bank has launched various programs and events designated for this purpose, the most important of which was the Campaign launched by the Bank in cooperation with Kuwait Blind Association under the caption "Contribute in Printing a Copy of the Qur'an for Each Blind" with the objective of contributing in printing the Holy Qur'an in Braille to help the blind to read the Holy Qur'an not only in Kuwait but in all Islamic countries as well.

In 2017, the Bank continued the activities of its "Hawwen Alaihom" Campaign targeting road cleaners & construction workers; the Campaign which was selected & named for 2016 GCC-CSR Award. 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.

Emphasizing the attachment of its name to the revival of the old Kuwaiti heritage, the Bank continued its efforts in this area by organizing "Ya Zeen Turathna" Campaign targeting the revival of the old Kuwaiti heritage & noble meanings to get the present & future generations reminded of the worth-highlighting traditions & glorious deeds of Kuwaiti ancestors to keep the essence of the past with its memories present in the minds. The Bank also continued to issue its annual calendar which mirrors various scenes that depict the old Kuwaiti life and which normally remain as an inexhaustible reference.

The Bank emphasize that its efforts for supporting corporate social responsibility activities, programs and initiatives will continue to demonstrate its significant role towards society servicing as a prestigious financial institution which endeavors to underpin corporate social responsibility.

Seventeenth: Management Discussion and Analysis

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

In this context, the Management believes that Commercial Bank of Kuwait remains a financially stable institution, with sound asset quality, strong income growth potential, strong capital base and high liquidity. A summary of the Bank's financial position is presented below. Full financial information is available in the Bank's financial statements.

Balance sheet

Total assets at KD 4.4 billion are higher by 6.5% compared to last year. Loans and advances represent 50.9% of total assets, investment securities 10.4% and Central Bank bills & bonds are 11.2%. The loan portfolio at KD 2.4 billion is mainly comprised of Commercial loans with 25.8% concentrated in the real estate & construction sector and 26.96% concentrated in trade and commerce sector. Retail loans are 19.1% of the total loan portfolio mainly comprised of personal loans. The investment securities consist of debt securities 53.4% and equity portfolio of 47.6%. It is worth mentioning that the NPL to total loans ratio at 0.53% is the lowest in the banking sector in Kuwait.

The total liabilities of KD 3.7 billion include customer deposits of KD 2.2 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 580.7 million to KD 624.8 million.

Income

The operating income grew by 7.6% to KD 150.9 million compared with KD 140.3 million for 2016. Operating income is comprised of net interest income KD 93.6 million, fees and commission KD 40.3 million, investment, foreign exchange and other income KD 17.0 million. Loans amounting to KD 16.2 million were written off during the year while recovery against previously written off loans amounted to KD 32.8 million. The net profits increased from KD 50.4 million (EPS 30.8 fils) to KD 55.4 million (EPS 33.9 fils). The bulk of the Bank's earnings come from Corporate and Retail banking activities. Expense management continues to be one of the Bank's strengths; the cost to income ratio at 30.9% is much lower than industry average.

Capital adequacy & other Basel III ratios

The Bank's capital adequacy at 18.60% is at comfortably above the minimum requirement of 13.5%. The LCR 195%, NSFR 115.6% and leverage ratio 11.4% 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 low oil price regime. The proactive loan loss provisioning and building of voluntary loan loss reserve has seen the fluctuations in banks' net profit but has stabilised during last four years. Net profitability started improving during 2013 and the trend continuing during 2017 by declaring the highest net profit during last 5 years. It is to be noted that most of the Bank's operations are locally concentrated to make up 74.8% of total operations 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 18 bil in 2016 and USD 10 bil in 2017. Consequently, credit growth remained healthy at 3.2%y-o-y as at Dec 2017, 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 three times during 2017. The local commercial banking industry in 2017 saw a challenging operating environment with the returns not increasing commensurately to the increase in cost of funds.

The year 2017 saw improvement in global oil prices to over USD 60 per barrel during 4Q2017, which were on a declining trend since its peak in June 2014 and declining to a low of USD 28 in January 2016. 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 2017 continued to witness divergent policies in the US and Eurozone. While the US growth is on a recovery path and the US Fed increased interest rates three times during 2017 after tapering down its Quantitative Easing (QE) programme, the European Union continues to witness negative interest rates with quantitative easing likely to end only in 2018 by the European Central Bank.

From a growth perspective, China and India remained the drivers of global growth although the Chinese economy is continuing to show weaknesses. The Chinese economy, which grew at 6.8% in 2017, is forecasted to grow at 6.4% in 2018 and 6.3% in 2019 according to World Bank. 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 7.3% and 7.5% in 2018 and 2019, 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 rising US interest rates 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. The rising US interest rates is posing a threat to emerging markets and the global economies in general which could translate into lower valuations in the capital markets, which could lead to lower collateral valuations in the Banking books.

The 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 measures as appropriate.

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 contribution forms a major component of the overall GDP. Based on sustained strength in oil prices 2018 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 in Nov 2016 has led to the improvement in the capital markets as well. However falls in the oil prices will lead to a fall in the stock market, similar to what was witnessed during depressed oil price levels. This kind of a scenario could weigh down on the banking industry's balance sheet and earnings.

Asset and liability concentrations

The Bank has consciously reduced the share of real estate and securities in its portfolio and increased the share of Contracting, Manufacturing and Trade. Concentration on the liabilities side mainly due to high proportion of deposits from government and quasi government entities is a logical evolution of high liquidity in these entities. However, the Bank monitors and limits deposits from significant depositors. The risk strategy for 2017-2019 has been finalised taking into account the present operating environment as well as the challenges.

Regulatory challenges

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

Idiosyncratic risks
Asset quality

The Bank has identified and recognised impairment in its credit and investment portfolios on a proactive basis. While this was a challenge after the financial crisis of 2007/2008 the Bank's steps are expected to ensure NPL formation to continue at a slow pace going forward.

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 2017. 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 an annual Business Continuity Test to ensure the Business Continuity Plans are up to date and implemented with efficiency.

Financial Review

2017 Statement of Income

The net profit of KD 55.4 million attributable to shareholders of the Bank was 10.0% higher than KD 50.4 million for 2016. Earnings per share were 33.9 fils compared to 30.8 fils for the last year.

Net interest income of KD 93.6 million was higher by KD 8.8 million (or 10.5%) compared to KD 84.8 million for 2016. The average yield on interest earning assets increased to 3.41% from 3.20% in 2016. The average cost on interest bearing liabilities also increased from 1.05% to 1.14% during 2017. The Bank's net spread was 2.27% and the net interest margin was 2.39%. Improvement in net interest income, spread and net interest margin was due to continuous improvement in assets quality and effective liquidity management.

Fees and commissions increased by KD 2.9 million (or 7.88%) to KD 40.3 million. Gain on sale of investment securities was KD 4.3 million during the year.

Staff expenses of KD 26.9 million were higher by 26.40% compared to last year mainly due to the changes in the labour law. General and administration expenses for 2017 were higher by KD 1.8 million (10.11% of 2016).

The charge for Impairment and other provisions was KD 46.3 million for 2017, a decrease of KD 2.3 million compared to the KD 48.6 million of 2016. The impairment and provision charge was net of recoveries KD 32.8 million against previously written off loans. The provision reserve at year end 2017 was KD 136.9 million. Non-performing loans of KD 12.5 million were 0.53% of total loans.

2017 Balance Sheet

Total assets at KD 4,394.6 million increased by KD 269.3 million (or 6.5%) compared to last year. The Loans and advances net of provisions decreased by KD 13.9, the bank is consistently following up its policy of improving the quality of loans rather than quantity. The customer deposits decreased by KD 17.4 million while the deposit from financial institutions increased by KD 213.6 million.

Equity attributable to shareholders of the Bank reached KD 624.8 million an increase of 7.6% compared to 2016.

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 55.4) for the year attributable to shareholders of the Bank will be distributed as follow:

1.Cash dividend of 18 fils per share (2016: 15 fils) KD 29.4 million
2.Bonus share of 10 shares for every hundred shares (2016: 10) KD 16.5 million
3.KD 9.5 million transfer to retained earnings.

Financial Information

31 December 2017

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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 2017, 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 2017, 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

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

Due to significance of loans and advances (representing 51% of total assets) and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies and the management's assessment of the credit risk and their responses to such risks are given in Note 21(b) to the consolidated financial statements.

Our audit procedures included the assessment of controls over the granting, recording, monitoring and impairment provisioning processes of loans and advances to confirm the operating effectiveness of the key controls in place, to identify the impaired loans and advances and estimate the required provisions against them.

In addition to testing the key controls, we selected samples of loan facilities and assessed critically the criteria for determining whether an impairment event had occurred, by focusing on those with the most significant potential for impairment due to increased uncertainty for recovery in the current market circumstances and specifically challenged management's assessment of the recoverable amount.

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

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

Other information included in the Annual Report of the Group for the year ended 31 December 2017

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 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.

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

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

- 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;

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

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 2017 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2017 that might have had a material effect on the business of the Bank or on its financial position.

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

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

7 February 2018
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2017

ASSETS	Note	2017 KD 000's	2016 KD 000's
Cash and short term funds	3	**509,202**	556,929
Treasury and Central Bank bonds	4	**493,542**	329,570
Due from banks and other financial institutions	5	**569,308**	472,078
Loans and advances	6	**2,236,527**	2,250,468
Investment securities	7	**458,774**	393,334
Premises and equipment		**28,996**	29,439
Intangible assets	9	**3,506**	3,506
Other assets	10	**94,731**	89,965
TOTAL ASSETS		**4,394,586**	4,125,289
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**313,669**	365,972
Due to other financial institutions		**1,016,491**	802,885
Customer deposits		**2,204,211**	2,221,632
Other borrowed funds		**37,750**	30,630
Other liabilities	11	**167,445**	100,323
TOTAL LIABILITIES		**3,739,566**	3,521,442
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital		**164,633**	149,666
Proposed bonus shares		**16,463**	14,967
Treasury shares		**(4,578)**	(3,740)
Reserves		**273,515**	254,666
Retained earnings		**174,724**	165,190
		624,757	580,749
Proposed dividend		**29,435**	22,330
		654,192	603,079
Non-controlling interests		**828**	768
TOTAL EQUITY	12	**655,020**	603,847
TOTAL LIABILITIES AND EQUITY		**4,394,586**	4,125,289

Ali Mousa M. Al Mousa
Chairman

Elham Yousry Mahfouz
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2017

	Note	2017 KD 000's	2016 KD 000's
Interest income	13	**133,339**	120,103
Interest expense		**(39,750)**	(35,348)
NET INTEREST INCOME		**93,589**	84,755
Fees and commissions		**40,326**	37,382
Net gain from dealing in foreign currencies		**4,002**	6,405
Net gain from investment securities	14	**4,318**	1,263
Dividend income		**4,551**	5,954
Gain on disposal of assets pending sale		**-**	231
Other operating income		**4,162**	4,354
OPERATING INCOME		**150,948**	140,344
Staff expenses		**(26,938)**	(21,306)
General and administration expenses		**(19,474)**	(17,685)
Depreciation and amortisation		**(162)**	(119)
OPERATING EXPENSES		**(46,574)**	(39,110)
OPERATING PROFIT BEFORE PROVISIONS		**104,374**	101,234
Impairment and other provisions	15	**(46,258)**	(48,627)
PROFIT BEFORE TAXATION		**58,116**	52,607
Taxation	16	**(2,616)**	(2,205)
NET PROFIT FOR THE YEAR		**55,500**	50,402
Attributable to:			
Shareholders of the Bank		**55,432**	50,401
Non-controlling interests		**68**	1
		55,500	50,402
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	17	**33.9**	30.8

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 KD 000's	2016 KD 000's
Net profit for the year	**55,500**	50,402
OTHER COMPREHENSIVE INCOME		
Items that will be reclassified subsequently to consolidated statement of income:		
Changes in fair value of investment securities	**21,555**	(2,578)
Net loss on disposal / impairment of investment securities	**(2,056)**	(715)
Items that will not be reclassified subsequently to consolidated statement of income:		
Property revaluation (loss) gain	**(658)**	(796)
	18,841	(4,089)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**74,341**	46,313
Attributable to:		
Shareholders of the Bank	**74,281**	46,313
Non-controlling interests	**60**	-
	74,341	46,313

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	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 2016	141,194	8,472	(2,822)	66,791	115,977	17,927	-	26,078	31,724	258,497	152,077	18,282	575,700	1,025	576,725
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(796)	(3,292)	(4,088)	50,401	-	46,313	-	46,313
Issue of bonus shares	8,472	(8,472)	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	(918)	-	-	-	-	-	-	-	-	-	(918)	-	(918)
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(18,273)	(18,273)	-	(18,273)
Dividend on treasury share purchased	-	-	-	-	-	-	-	-	-	-	9	(9)	-	-	-
Proposed dividend (note 12)	-	-	-	-	-	-	-	-	-	-	-	22,330	-	-	-
Proposed bonus shares (note 12)	-	14,967	-	-	-	-	-	-	-	-	(22,330)	-	-	-	-
Ownership changes in subsidiary	-	-	-	-	-	-	-	-	257	257	(14,967)	-	257	(257)	-
Balance as at 31 December 2016	**149,666**	**14,967**	**(3,740)**	**66,791**	**115,977**	**17,927**	**-**	**25,282**	**28,689**	**254,666**	**165,190**	**22,330**	**603,079**	**768**	**603,847**
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)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(29,435)**	**29,435**	**-**	**-**	**-**
Proposed bonus shares (note 12)	**-**	**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**

Investment valuation reserve includes a loss of KD 5,420 thousand (31 December 2016: loss of KD 5,498 thousand) arising from foreign currency translation of the Bank's investment in its associate.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	2017 KD 000's	2016 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		**58,116**	52,607
Adjustments for:			
Impairment and other provisions	15	**46,258**	48,627
Income from investment securities		**(8,869)**	(7,217)
Foreign exchange gain on investment securities		**(2,674)**	(1,024)
Depreciation and amortisation		**162**	119
Profit before changes in operating assets and liabilities		**92,993**	93,112
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		**(163,972)**	3,005
Due from banks and other financial institutions		**(95,663)**	(206,397)
Loans and advances		**33,290**	(19,664)
Other assets		**(4,766)**	(23,318)
Due to banks		**(52,303)**	199,068
Due to other financial institutions		**213,606**	175,653
Customer deposits		**(17,421)**	(324,531)
Other liabilities		**(2,395)**	4,235
Net cash from (used in) operating activities		**3,369**	(98,837)
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		**62,160**	79,955
Acquisition of investment securities		**(101,382)**	(123,931)
Dividend income from investment securities		**4,551**	5,954
Proceeds from disposal of premises and equipment		**1**	3
Acquisition of premises and equipment		**(378)**	(123)
Net cash used in investing activities		**(35,048)**	(38,142)
FINANCING ACTIVITIES			
Other borrowed funds		**7,120**	30,630
Purchase of treasury shares		**(838)**	(918)
Dividend paid		**(22,330)**	(18,273)
Net cash (used in) from financing activities		**(16,048)**	11,439
Net decrease in cash and short term funds		**(47,727)**	(125,540)
Cash and short term funds as at 1 January		**556,929**	682,469
Cash and short term funds as at 31 December	3	**509,202**	556,929

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

1- INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait K.P.S.C. ("the Bank") is a public shareholding company incorporated in the State of Kuwait and is registered as a bank with the Central Bank of Kuwait (CBK) and is listed on the 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 07 February 2018 and are issued subject to the approval of the Annual General Assembly of the Shareholders of the Bank. The Annual General Assembly of the Shareholders has the prerogative to amend these consolidated financial statements after issuance.

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

2- SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year. Amendments to IFRSs which are effective for accounting period starting 1 January 2017 did not have any material impact on the accounting policies, financial positions or performance of the Group.

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

i) IFRS 9: Financial Instruments

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 that replaces IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting.

IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, Group will not restate prior period comparative consolidated financial statements, when the new standard is adopted, but the difference in carrying amounts of financial instruments resulting from adoption of IFRS 9 will be recognized in opening 1 January 2018 retained earnings.

(a) Classification and measurement

The classification and measurement of financial assets under IFRS 9 for all debt instruments depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. If the contractual cash flow characteristics does not meet a "solely payment of principal and interest" (SPPI) test, it will be classified at initial recognition as fair value through profit or loss (FVTPL). For debt instrument financial asset that meet the SPPI test, classification at initial recognition will be determined either at amortised cost, fair value through other comprehensive income (FVOCI) or FVTPL based on the business model under which these instruments are managed.

All equity instruments are required to be measured at fair value through profit or loss unless an irrevocable designation is made to classify the instrument as FVOCI for equities. Unlike available for sale equity instruments under IAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to statement of income. Only dividends will continue to be recognized in the statement of income.

The adoption of this standard will have impact on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities.

(b) Impairment

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, certain loan commitments and financial guarantee contracts. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. ECL model contains a three stage approach which is based on the change in the credit quality of financial assets since initial recognition. Accordingly, ECL allowances will be measured at amounts equal to either 12 month ECL (Stage 1) or life time ECL (Stage 2) for those financial instruments which have experienced a significant increase in credit risk (SICR). Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The Group has completed the development and testing of operating models and methodologies for the calculation of ECL. The Group has also performed parallel runs during the year to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The Group continues to revise, refine and validate the impairment models and related process controls in advance of 31 March 2018 reporting.

(c) Transition impact

The Bank will determine the potential impact of the ECL provision in line with the IFRS 9 as at 31 March 2018. The Bank will also comply with instructions issued by the CBK in this regard.

(d) Hedge accounting

As at 31 December 2017, the Bank does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 will not have a significant impact on Bank's financial statements.

(e) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Bank's assessment included an analysis to identify data gaps against current process and the Bank is in process of implementing the system and controls changes that it believes will be necessary to capture the required data.

ii) IFRS 15: Revenue from contracts with customers

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

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

The Group did not early adopt IFRS 15 and has evaluated that the adoption of the standard will not have a significant impact on the Group's consolidated financial statements.

iii) IFRS 16: Leases

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

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

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

(b) Basis of consolidation

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

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

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

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

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

i) Derecognises the assets (including goodwill) and liabilities of the subsidiary

ii) Derecognises the carrying amount of any non controlling interest

iii) Derecognises the cumulative translation differences, recorded in equity

iv) Recognises the fair value of the consideration received

v) Recognises the fair value of any investment retained

vi) Recognises any surplus or deficit in profit or loss

vii) Reclassifies the Bank's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(c) Associates

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

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

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

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

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

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

(d) Financial instruments

(i) Classification and measurement

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

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

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

Cash and short term funds

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

At fair value through statement of income

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

Held to maturity

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

Loans and receivables

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

Available for sale

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

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

Financial liabilities

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

(ii) Recognition and de-recognition

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

A financial asset is derecognised

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

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

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

(iii) Derivative financial instruments and hedge accounting

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

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

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

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

(iv) Financial guarantees

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

(v) Renegotiated loans

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

(vi) Offsetting financial instruments

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

(vii) Asset pending sale

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

(viii) Fair values

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

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

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

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

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

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

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

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

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

(ix) Amortised cost

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

(x) Impairment of financial assets

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

i) Financial assets carried at amortised cost

(A) overdue debit balance in the current account has been constantly showing an excess of 10% of the borrower’s overdraft limit;
(B) overdue debit balance without an authorised limit, irrespective of the value of such a debit balance;
(C) credit facilities have expired and have not been renewed or extended in light of the outcome of the borrower’s financial position;
(D) installments of the loan have not been repaid on their respective due dates;
(E) deterioration of the borrower’s guarantor’s financial position;
(F) the borrower violates any of the agreed covenants, which may adversely affect the credit;
(G) the borrower or guarantor is placed under liquidation or bankruptcy;
(H) evident facts indicate potential crystallization of the borrower’s non-cash facility without timely reimbursement;

(I) the borrower is in default in payment of any obligation to other banks or financial institutions;
(J) legal action initiated by any other bank or financial institution against the borrower or guarantor for recovery of any credit facility.
(K) reduced activity in the borrower's account so that:
   1) there are no credits in the account for the last six months even if the outstanding is within the overdraft limit.
   2) credits in the account during the year are insufficient to cover the interest debited.
(L) irregularities in documentation which may affect the prospects of recovery of the loan.

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

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

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

ii) Financial assets classified as available for sale

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

(e) Premises and equipment

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

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

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

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

(f) Non-current assets held for sale

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

(g) Intangible assets

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

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

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

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

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

(h) Treasury shares

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

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

(i) Revenue recognition

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

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

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

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

(j) Foreign currencies

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

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

(k) End of service pay

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

The Group recognizes this cost as an expense of the year and 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 judgments and estimates

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

Judgments

Classification of investments

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

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

Impairment of investments

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

Estimates

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

Impairment losses on loans and advances and investment in debt instruments

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

Valuation of unquoted equity investments

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

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions, may have an impact on the carrying value of impairment loss for loans and advances, investment in debt instruments and fair values of unquoted equity investments.

Impairment of intangible assets

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

3- CASH AND SHORT TERM FUNDS

	2017	2016
	KD 000's	KD 000's
Cash and cash items	**204,406**	232,130
Balances with the CBK	**3,844**	10,935
Deposits with banks maturing within seven days	**300,952**	313,864
	509,202	556,929

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

4- TREASURY AND CENTRAL BANK BONDS

	2017	2016
	KD 000's	KD 000's
Treasury bonds	**336,155**	192,404
Central Bank bonds	**157,387**	137,166
	493,542	329,570

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

Treasury bonds issued by the CBK carry a fixed 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

	2017 KD 000's	2016 KD 000's
Placements with banks	496,292	430,034
Loans and advances to banks	73,754	42,469
	570,046	472,503
Less: Provision for impairment	(738)	(425)
	569,308	472,078

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

6- LOANS AND ADVANCES

(a) Classification

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

As at 31 December 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

As at 31 December 2016

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

During the year 2013, the Ministry of Finance established the Family Support Fund (the "Fund") under Law No. 104/2013 to purchase outstanding balance of installment and consumer loans from the Banks as on 12 June 2013 for loans granted before 30 March 2008. Accordingly, CBK issued a Circular no. 2/BS,IS/305/2013 to all local banks and investment companies regarding formation of the Fund. The Bank has identified such loans amounting to KD 38,818 thousand and submitted report to CBK for approval, as required by the circular. Interest income on such loans is not recognised from 12 June 2013. At the reporting date, loans amounting to KD 32,686 thousand (2016: KD 32,615 thousand) have been settled.

(b) Movement in provisions for loans and advances

	2017 KD 000's			2016 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**14,225**	**126,845**	**141,070**	16,594	108,272	124,866
Written-off	**(15,800)**	**-**	**(15,800)**	(84,042)	-	(84,042)
Exchange differences	**(1)**	**42**	**41**	(1)	(5)	(6)
Ceded to Central Bank	**(8)**	**-**	**(8)**	(11)	-	(11)
Charge / (released) to consolidated statement of income	**11,588**	**(61)**	**11,527**	81,685	18,578	100,263
Provisions 31 December	**10,004**	**126,826**	**136,830**	14,225	126,845	141,070

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

The specific and general provision for cash credit facilities amounting to KD 136,830 thousand (2016: KD 141,070 thousand) also includes an additional provision amounting to KD 97,500 thousand (2016: 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 114 thousand (2016: KD 131 thousand) on impaired loans. The available provision for non-cash credit facilities of KD 9,807 thousand (2016: KD 9,028 thousand) is included in other liabilities.

(c) Non-performing loans

	2017 KD 000's	2016 KD 000's
Loans and advances	**12,465**	12,009
Collaterals	**503**	486
Available provisions	**6,448**	6,137

7- INVESTMENT SECURITIES

	2017	2016
	KD 000's	KD 000's
Available for sale		
Debt securities -quoted	**229,497**	166,433
Debt securities -unquoted	**18,588**	28,406
Equity securities -quoted	**170,583**	161,792
Equity securities -unquoted	**30,099**	32,345
Others	**10,007**	4,358
	458,774	393,334

During the year, the Group recognised an unrealised gain of KD 21,555 thousand (2016: unrealised loss of KD 2,578 thousand) in the consolidated statement of comprehensive income as arising from changes in fair value and re-cycled accumulated fair valuation changes of KD 2,056 thousand (2016: KD 715 thousand) to the consolidated statement of income on disposal and impairment of "available for sale" investment securities. Impairment loss of KD 275 thousand (2016: KD 2,102 thousand) was also charged to the consolidated statement of income.

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 79,746,478 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 totaling 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.

The Bank can now initiate proceedings to execute against the appellants for the price of the shares to be paid back to the Bank under the final ruling. The Bank will continue to recognize 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 a 32.26% (2016: 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 (2016: KD 3,506 thousand). The brokerage license is considered to have an indefinite useful life.

As at 31 December 2017, the carrying value of brokerage license was tested for impairment by estimating the recoverable amount of the cash generating unit to which these items are allocated using value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management over a five-year period and a relevant terminal growth rate of 2.9% (2016: 2.5%). These cash flows were then discounted using a pre-tax discount rate of 9.3% (2016: 9%) 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 (2016: KD 6,303 thousand).

10- OTHER ASSETS

	2017	2016
	KD 000's	KD 000's
Accrued interest receivable	**2,512**	3,191
Other receivables	**92,219**	86,774
	94,731	89,965

Other assets are classified as “loans and receivables”.

Other receivables include assets pending sale amounting to KD 60,685 thousand (2016: KD 63,058 thousand) that was obtained through the settlement of loans and advances.

11- OTHER LIABILITIES

	2017 KD 000's	2016 KD 000's
Accrued interest payable	22,380	16,134
Deferred income	5,349	6,117
Provision for non-cash facilities & others	74,878	13,393
Staff related accruals	7,510	3,678
Others	57,328	61,001
	167,445	100,323

12- EQUITY

(a) Share capital

The share capital comprises of 1,646,327,641 (2016: 1,496,661,492) 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

	2017	2016
Number of treasury shares	11,066,117	8,000,000
Percentage of total shares issued	0.67%	0.59%
Cost of shares (KD 000's)	4,578	3,740
Fair value of shares (KD 000's)	4,426	3,280
Weighted average fair value per treasury share (fils)	401	449

Movement in treasury shares are as follows:

	No. of shares	
	2017	2016
Balance as at 1 January	8,000,000	5,637,773
Purchases	2,266,117	1,983,624
Bonus issue	800,000	378,603
Balance as at 31 December	11,066,117	8,000,000

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 2017 and 2016 there were no transfers to general reserve.

(e) Property revaluation reserve

This represents surplus arising from the revaluation of property.

(f) Investment valuation reserve

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

(g) Proposed dividend and bonus shares

The Extraordinary General Meeting of shareholders held on 1 April 2017 resolved to increase the authorised share capital of the Bank from KD 149,666 thousand to KD 164,633 thousand.

Annual General Assembly of the shareholders' held on 1 April 2017 approved to distribute cash dividend of 15 fils per share (2015: 13 fils per share) and 10 bonus shares for every 100 shares held (2015: 6 bonus shares for every 100 shares) for the year 2016. Subsequently, the cash dividend was paid and the bonus shares increased the number of shares by 149,666,149 and accordingly, the share capital by KD 14,967 thousand.

The Board of Directors has proposed a 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 held) for the year 2017. This proposal is subject to the approval of competent regulatory authorities and shareholders' Annual General Assembly.

13- INTEREST INCOME

Interest income includes a release of KD 21 thousand (2016: KD 49 thousand) due to adjustments arising from revised estimates of future cash flows, discounted at the original contracted rates of interest from a portfolio of performing loans that have had their terms modified during the years 2007 and 2008, as per Central Bank circulars 2/202BS RSA/2007 dated February 13, 2007 and 2/105 dated April 23, 2008.

14- NET GAIN FROM INVESTMENT SECURITIES

	2017 KD 000's	2016 KD 000's
Realised gain on sale of investments classified as available for sale	**4,318**	1,263

15- IMPAIRMENT AND OTHER PROVISIONS

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

	2017 KD 000's	2016 KD 000's
Loans and advances - specific	**(11,588)**	(81,685)
Loans and advances - recoveries	**32,756**	33,689
Loans and advances - general	**(252)**	(18,666)
Investment securities	**(275)**	(2,102)
Non cash facilities	**(787)**	(535)
Other provisions	**(66,112)**	20,672
	(46,258)	(48,627)

16- TAXATION

	2017 KD 000's	2016 KD 000's
National Labour Support Tax (NLST)	**(1,462)**	(1,208)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)	**(580)**	(526)
Zakat	**(574)**	(471)
	(2,616)	(2,205)

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

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

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

17- EARNINGS PER SHARE

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

	2017	2016
Net profit for the year attributable to shareholders of the Bank (KD 000's)	**55,432**	50,401
Weighted average of authorised and subscribed shares (numbers in 000's)	**1,646,328**	1,646,328
Less: Weighted average of treasury shares held (numbers in 000's)	**(9,653)**	(8,253)
	1,636,675	1,638,075
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	**33.9**	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.

18- SUBSIDIARY

			% of Ownership	
Name of Entity	**Country of Incorporation**	**Principal Business**	**2017**	2016
Al-Tijari Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage services	**93.55%**	93.55%

19- RELATED PARTY TRANSACTIONS

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

	2017			2016		
	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	**3**	**-**	**462**	2	-	80
Credit cards	**4**	**1**	**4**	6	-	8
Deposits	**10**	**-**	**332**	10	-	194
Executive Managemen						
Loans	**10**	**-**	**248**	8	-	105
Credit cards	**6**	**2**	**12**	12	1	16
Deposits	**13**	**-**	**508**	12	-	476

The loans issued to directors, key management personnel and related members are repayable within 5 to 10 years and have interest rates ranging from 0% to 5.75% (2016: 0% to 5%).

Details of compensation for key management including remuneration of the Chief Executive Officer amounting to KD 197 thousand (31 December 2016 KD: 191 thousand) are as follows:

	2017 KD 000's	2016 KD 000's
Salaries and other short-term benefits	**1,197**	1,056
Post employment benefits	**8**	8
End of service benefits	**105**	100

The remuneration to the Chairman and members of the Board of Directors is KD 300 thousand (31 December 2016: KD 300 thousand) and KD 230 thousand (31 December 2016: 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.

20- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having short-term maturity (less 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.
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(viii): "Significant Accounting Policies"

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

	2017			
	KD 000's			
Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through statement of income:				
Derivative financial instruments (note 21)	**-**	**(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**

During the year ended 31 December 2017, there were no transfers between level 1, level 2 and level 3.

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

21- FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

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

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

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

(b) Overall risk management

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

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

(i) CREDIT RISK

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

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

(A) Credit risk concentration

The 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.

	2017 KD 000's	2016 KD 000's
Credit exposure relating to on-balance sheet items		
Cash and short term funds	**509,202**	556,929
Treasury and Central Bank bonds	**493,542**	329,570
Due from banks and OFIs	**569,308**	472,078
Loans and advances - Corporate	**1,792,224**	1,818,803
Loans and advances - Retail	**444,303**	431,665
Debt securities	**248,085**	194,839
Other assets	**35,149**	26,907
	4,091,813	3,830,791
Credit exposure relating to off-balance sheet items		
Acceptances	**27,963**	47,947
Letters of credit	**184,981**	137,689
Letters of guarantee	**1,331,003**	1,330,501
	1,543,947	1,516,137
	5,635,760	5,346,928

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

(C) Collateral and other credit enhancements

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

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

(D) Credit quality of credit exposure

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

	KD 000's						
	Neither past due nor impaired			Past due but not impaired		Impaired	Fair value of collateral
	Superior grade	Good	Standard grade	0 - 60 days	61 - 90 days		
As at 31 December 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**
As at 31 December 2016							
Banks	-	-	42,469	-	-	-	-
Corporate	171,380	833,700	469,252	465,482	9,130	1,342	473
Retail	-	-	388,965	41,751	-	10,667	13
	171,380	833,700	900,686	507,233	9,130	12,009	486

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

	Internal	External
Superior grade	Grades 1 to 4	Ratings AAA, AA & A
Good grade	Grades 5 & 6	Rating BBB
Standard grade	Grades 7 & 8	Below BBB and unrated
Default grade	Grades 9 to 11	Ratings D or equivalent

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

	2017 KD 000's		2016 KD 000's	
	Assets	Off Balance Sheet	Assets	Off Balance Sheet
Geographic sector				
Kuwait	3,193,998	1,092,905	3,226,382	1,023,027
Asia	977,944	298,197	684,098	324,737
Europe	95,611	111,112	85,727	110,720
USA	1,914	41,583	2,042	51,376
Others	33,035	150	31,037	6,277
	4,302,502	1,543,947	4,029,286	1,516,137
Industry sector				
Government	493,542	-	329,570	-
Trade and commerce	603,206	354,797	543,868	301,134
Construction and real estate	582,003	757,715	655,084	776,652
Banks and financial institutions	1,598,133	316,553	1,494,773	309,510
Others	1,025,618	114,882	1,005,991	128,841
	4,302,502	1,543,947	4,029,286	1,516,137

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

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

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

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

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

	KD 000's						
			Notional amount by term maturity				
	Positive fair value	Negative fair value	Up to 1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Total
As at 31 December 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**
As at 31 December 2016							
Forward Foreign exchange Contracts	6,769	2,578	272,279	346,129	195,800	-	814,208
Interest Rate Swaps	636	45	-	-	-	94,488	94,488
	7,405	2,623	272,279	346,129	195,800	94,488	908,696

(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	**2017**	2016
Kuwaiti dinar	+ 25	**2,467**	2,641
US dollar	+ 25	**203**	211
Other currencies	+ 25	**526**	174
		3,196	3,026

(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			
		2017		2016	
	% Change in currency rates	**Statement of income**	**Equity**	Statement of income	Equity
US Dollar	+5	**(29)**	**8,068**	(5)	6,033
Euro	+5	**(5)**	**224**	2	205
Sterling Pound	+5	**2**	**2,789**	3	2,252
Australian Dollar	+5	**5**	**-**	40	-
UAE Dirham	+5	**22**	**-**	108	-
Qatari Riyal	+5	**3**	**-**	44	-
Others	+5	**12**	**-**	37	-
		10	**11,081**	229	8,490

(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 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			
		2017		2016	
	% Change in currency rates	**Statement of income**	**Equity**	Statement of income	Equity
Boursa Kuwait	+ 5	**-**	**8,529**	-	8,090

(iii) LIQUIDITY RISK

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

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

	KD 000's					
As at 31 December 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
LIABILITIES						
Due to banks	228,238	48,770	36,661	-	-	313,669
Due to other financial institutions	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

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

(B) Contractual expiry by maturity.

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					
Contingent Liabilities	**142,453**	**334,263**	**174,136**	**241,744**	**651,351**	**1,543,947**
As at 31 December 2016						
Contingent Liabilities	116,896	246,106	180,100	200,891	772,144	1,516,137

(C) Contractual undiscounted repayment obligations by maturity.

	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**
UNDISCOUNTED LIABILITIES						
Due to banks	**228,288**	**48,861**	**36,936**	**-**	**-**	**314,085**
Due to other financial institutions	**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**

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

22- OPERATIONAL RISK

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

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

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

23- SEGMENTAL ANALYSIS

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

a) Corporate and Retail banking provides a full range of lending, deposit and related banking services to domestic and international corporate and individual customers.

b) Treasury and Investment banking comprises of money market, foreign exchange, treasury bonds and brokerage services.

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

	KD 000's					
	Corporate and Retail Banking		Treasury and Investment Banking		Total	
	2017	2016	**2017**	2016	**2017**	2016
Net interest income	**82,498**	76,182	**11,091**	8,573	**93,589**	84,755
Non interest income	**43,683**	42,432	**13,676**	13,157	**57,359**	55,589
Operating income	**126,181**	118,614	**24,767**	21,730	**150,948**	140,344
Impairment and other provisions	**15,001**	(66,855)	**(61,259)**	18,228	**(46,258)**	(48,627)
Net profit for the year	**115,623**	28,018	**(60,123)**	22,384	**55,500**	50,402
Total Assets	**2,376,561**	2,366,095	**2,018,025**	1,759,194	**4,394,586**	4,125,289
Total Liabilities and Equity	**1,654,298**	1,502,316	**2,740,288**	2,622,973	**4,394,586**	4,125,289

24- OFF BALANCE SHEET ITEMS

(a) Financial instruments with contractual amounts

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

(b) Legal claims

At the date of consolidated statement of financial position certain legal claims existed against the Group and for which KD 1,071 thousand (2016: KD 366 thousand) has been provided.

25- CAPITAL ADEQUACY

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

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 December 2017

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 1,646,327,641 (31 December 2016: 1,496,661,492) authorised, subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2017, the Bank held 11,066,117 treasury shares (31 December 2016: 8,000,000 treasury shares).

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

	2017 **KD 000's**	2016 KD 000's
a. Tier 1 capital consist of:		
i Common equity tier 1 (CET1)		
1 - Paid-up share capital	**164,633**	149,666
2 - Proposed bonus shares	**16,463**	14,967
3 - Share premium	**66,791**	66,791
4 - Retained earnings	**174,724**	165,190
5 -Investment valuation reserve	**48,196**	28,689
6 -Property revaluation reserve	**24,624**	25,282
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)**	(3,740)
12- Non significant investments in banking, financial and insurance entities	**-**	-
13- Significant investments in banking, financial and insurance entities	**(39,936)**	(36,325)
Total	**581,315**	540,918

	2017 KD 000's	2016 KD 000's
(ii) Additional tier 1		
Non-controlling interests in consolidated subsidiaries	**828**	768
Total	**828**	768
Total tier 1 capital	**582,143**	541,686
b. Tier 2 capital.		
1.General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	**39,888**	38,678
Total tier 2 capital	**39,888**	38,678
Total eligible capital	**622,031**	580,364

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

	2017			2016		
	Gross exposures	**Net risk weighted assets**	**Capital requirement**	Gross exposures	Net risk weighted assets	Capital requirement
	KD 000's	**KD 000's**	**KD 000's**	KD 000's	KD 000's	KD 000's
a. Credit risk						
1 - Claims on sovereigns	**540,559**	**7,594**	**987**	409,440	7,660	996
2 - Claims on international organisations	**-**	**-**	**-**	-	-	-
3 - Claims on PSEs	**120,369**	**-**	**-**	97,769	-	-
4 - Claims on MDBs	**-**	**-**	**-**	3,850	1,925	250
5 - Claims on banks	**1,401,411**	**454,237**	**59,051**	1,266,276	389,716	50,663
6 - Claims on corporates	**2,959,429**	**1,907,712**	**248,003**	2,933,147	1,756,208	228,307
7 - Claims on central counter parties	**-**	**-**	**-**	-	-	-
8 - Cash items	**207,288**	**-**	**-**	232,130	-	-
9 - Regulatory retail	**465,314**	**450,809**	**58,605**	452,732	436,688	56,769
10- RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-

	2017			2016		
	Gross exposures	Net risk weighted assets	Capital requirement	Gross exposures	Net risk weighted assets	Capital requirement
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
11- Past due exposure	6,230	4,524	588	6,051	4,367	568
12- Other assets	258,055	272,158	35,380	323,470	402,891	52,376
13- Claims on securitised assets	-	-	-	-	-	-
Total	5,958,655	3,097,034	402,614	5,724,865	2,999,455	389,929
b. Market risk						
1 - Interest rate position risk	-	-	-	-	-	-
2 - Equities position risk	-	-	-	-	-	-
3 - Foreign exchange risk	2,182	2,183	284	4,846	4,847	630
4 - Commodities risk	-	-	-	-	-	-
5 - Options	-	-	-	-	-	-
Total	2,182	2,183	284	4,846	4,847	630
c. Operational risk	137,439	244,291	31,758	130,231	231,455	30,089
Total	6,098,276	3,343,508	434,656	5,859,942	3,235,757	420,648

B - Capital ratios

	2017	2016
1 - Total capital ratio	18.60%	17.94%
2 - Tier 1 capital ratio	17.41%	16.74%
3 - CET 1 capital ratio	17.39%	16.72%

C- Additional capital disclosure

1- Common disclosure template

	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

	2017 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
4 - Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5 - Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
6 - Common Equity Tier 1 capital before regulatory adjustments	**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 C ET1 capital)	-	
21 - Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	

	2017 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
22 - Amount exceeding the 15% threshold	-	
23 - of which: significant investments in the common stock of financials	-	
24 - of which: mortgage servicing rights	-	
25 - of which: deferred tax assets arising from temporary differences	-	
26 - National specific regulatory adjustments	-	
27 - Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28 - Total regulatory adjustments to Common equity Tier 1	**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)	-	

	2017 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
41 - National specific regulatory adjustments	-	
42 - Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43 - Total regulatory adjustments to Additional Tier 1 capital	-	
44 - Additional Tier 1 capital (AT1)	**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)	-	
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**	

	2017 KD 000's Component of capital disclosure template	Cross reference from consolidated regulatory financial position
Capital Ratios and Buffers		
61 - Common Equity Tier 1 (as a percentage of risk weighted assets)	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	-	

	2016 KD 000's	
	Component of capital disclosure template	cross reference from consolidated regulatory financial position
Common Equity Tier 1 capital: Instruments and Reserves		
1 - Directly issued qualifying common share capital plus related share premium	216,457	i+l
2 - Retained earnings	165,190	r
3 - Accumulated other comprehensive income (and other reserves)	202,842	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	584,489	
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)	3,740	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)	-	

	2016 KD 000's	
	Component of capital disclosure template	cross reference from consolidated regulatory financial position
19 - Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	36,325	d
20 - Mortgage servicing rights (amount above 10% threshold of bank's C ET1 capital)	-	
21 - Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22 - Amount exceeding the 15% threshold	-	
23 - of which: significant investments in the common stock of financials	-	
24 - of which: mortgage servicing rights	-	
25 - of which: deferred tax assets arising from temporary differences	-	
26 - National specific regulatory adjustments	-	
27 - Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28 - Total regulatory adjustments to Common equity Tier 1	43,571	
29 - Common Equity Tier 1 capital (CET1) after regulatory adjustments	540,918	
Additional Tier 1 Capital: Instruments		
30 - Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31 - of which: classified as equity under applicable accounting standards	-	
32 - of which: classified as liabilities under applicable accounting standards	-	
33 - Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34 - Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	768	s
35 - of which: instruments issued by subsidiaries subject to phase - out	-	
36 - Additional Tier 1 capital before regulatory adjustments	768	
Additional Tier 1 Capital: Regulatory Adjustments		
37 - Investments in own Additional Tier 1 instruments	-	
38 - Reciprocal cross-holdings in Additional Tier 1 instruments	-	

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

	2016 KD 000's	
	Component of capital disclosure template	cross reference from consolidated regulatory financial position
57 - Total regulatory adjustments to Tier 2 capital	-	
58 - Tier 2 capital (T2)	38,678	
59 - Total capital (TC = T1 + T2)	580,364	
60 - Total risk weighted assets	3,235,757	
Capital Ratios and Buffers		
61 - Common Equity Tier 1 (as a percentage of risk weighted assets)	16.72%	
62 - Tier 1 (as a percentage of risk weighted assets)	16.74%	
63 - Total capital (as a percentage of risk weighted assets)	17.94%	
64 - Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	10.00%	
65 - of which: capital conservation buffer requirement	2.50%	
66 - of which: bank specific countercyclical buffer requirement	-	
67 - of which: D-SIB buffer requirement	0.50%	
68 - Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	9.72%	
National Minima		
69 - National Common Equity Tier 1 minimum ratio	9.50%	
70 - National Tier 1 minimum ratio	11.00%	
71 - National total capital minimum ratio excluding CCY and DSIB buffers	13.00%	
Amounts below the Thresholds for Deduction (before Risk Weighting)		
72 - Non-significant investments in the capital of financials institutions	52,347	f
73 - Significant investments in the common stock of financials institutions	57,724	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)	133,431	a+b+h
77 - Cap on inclusion of provisions in Tier 2 under standardized approach	38,678	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;

	2017 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	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		39,888	c
Investment securities	458,774		
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		

	2017 KD 000's Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
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		

	2016 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Assets			
Cash and short term funds	556,929		
Treasury and Central Bank bonds	329,570		
Due from banks and other financial institutions	472,078	425	a
Loans and advances	2,250,468		
Of which: general provisions on funded exposure eligible for inclusion in Tier 2		126,845	b
Of which: Cap on inclusion of general provisions in Tier 2		38,678	c
Investment securities	393,334		
Of which: significant investment in the capital of financial institutions (amount above 10% threshold of bank's CET1 capital)		36,325	d
Of which: significant investment in the capital of financial institutions (amount below 10% threshold of bank's CET1 capital)		57,724	e
Of which: non significant investment in the capital of other financial institutions (amounts below the thresholds for deduction)		52,347	f
Premises and equipment	29,439		
Intangible assets	3,506	3,506	g
Other assets	89,965		
Total assets	4,125,289		
Liabilities and equity			
Liabilities			
Due to banks	365,972		
Due to other financial institutions	802,885		
Customer deposits	2,221,632		
Other borrowed funds	30,630		
Other liabilities	100,323		
Of which: general provisions on unfunded exposure eligible for inclusion in Tier 2		6,161	h
Total liabilities	3,521,442		

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 December 2017

	2016 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Equity			
Equity attributable to shareholders of the Bank			
Share capital	149,666	149,666	i
Proposed bonus shares	14,967	14,967	j
Treasury shares	(3,740)	3,740	k
Reserves	254,666		
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		25,282	p
of which: property investment valuation reserve		28,689	q
Retained earnings	165,190	165,190	r
	580,749		
Proposed dividend	22,330		
	603,079		
Non-controlling interests	768	768	s
Total equity	603,847		
Total liabilities and equity	4,125,289		

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 164,633**
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.

	2017	2016
	KD 000's	KD 000's
1- On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,394,586**	4,125,289
2- (Asset amounts deducted in determining Tier 1 capital)	**(43,442)**	(39,831)
3 - Total on-balance sheet exposures (excluding derivatives and SFTs)	**4,351,144**	4,085,458
4- Replacement / substitution cost associated with all derivative transactions (net of eligible cash variation margin)	**2,200**	7,405
5- Add-on amounts for Potential Future Exposure (PFE) associated with all derivative transactions	**7,804**	22,267
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	**10,004**	29,672
12 - Gross SFT assets (with no recognition of netting)	**-**	-
13 - (Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-
14 - CCR exposures for SFT assets	**-**	-
15 - Exposure of the bank in its capacity as gent in the securities finance transaction (SFT)	**-**	-
16 - Total securities financing transaction exposures	**-**	-
17 - Off-balance sheet exposure (before application of credit conversion factors)	**1,543,947**	1,516,137
18 - (Adjustments for conversion to credit equivalent amounts)	**(835,912)**	(813,880)
19 - Total Off-balance sheet exposure	**708,035**	702,257
20 - Total exposures	**5,069,183**	4,817,387
21 - Tier 1 capital	**582,143**	541,686
22 - Leverage ratio (Tier 1 capital / total exposures)	**11.48%**	11.24%

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

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

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

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

The Group also conducts 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. 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 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. 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 restricted to stipulated limits and guidelines laid down by the Central Bank.

c. Liquidity Risk

The Bank manages liquidity risks that are evident in maturity mismatches and liability-side concentrations. Limits are in place for the control of liquidity risk and these include the maximum allowable cumulative mismatches and a limit for maximum amount allowed for lending. Internal alert limits are also laid down to ensure continued adherence to the regulatory limits. 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). While LCR is a regulatory ratio now, NSFR becomes a regulatory ratio from 2018, as per CBK's guidelines. 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.

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

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

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

In addition, minimum general provision has to be carried at 1% of the cash credit facilities and 0.5% for non-cash credit facilities, where no specific provision has been taken, in accordance with these regulations. Apart from the required general provision, portfolio provision, which represent additional general provision is made on certain portfolios. Such portfolios are identified based on certain criteria such as economic sector, group of special mention accounts, country risk etc. The rationale behind portfolio provision is to make the general provision more forward looking and also to take into account any possible loan-losses in future due to business cycle effects. The Bank is in the process of implementing IFRS 9 guidelines issued by International Accounting Standard Board (IASB) from the year 2018 onwards as required by CBK. Necessary modifications to the policy and procedures apart from development of required models and implementation of necessary systems for arriving at the expected credit loss calculations etc. are being carried out in this regard.

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.

a. Gross credit exposures

	2017			2016		
	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	**540,559**	**540,559**	**-**	409,440	409,440	-
2- Claims on international organisations	**-**	**-**	**-**	-	-	-
3- Claims on PSEs	**120,369**	**120,369**	**-**	97,769	97,769	-
4- Claims on MDBs	**-**	**-**	**-**	3,850	3,850	-
5- Claims on banks	**1,401,411**	**1,087,224**	**314,187**	1,266,276	959,958	306,318
6- Claims on corporates	**2,959,429**	**1,744,113**	**1,215,316**	2,933,147	1,738,014	1,195,133
7- Claims on central counter parties	**-**	**-**	**-**	-	-	-
8- Cash items	**207,288**	**207,288**	**-**	232,130	232,130	-
9- Regulatory retail	**465,314**	**450,971**	**14,343**	452,732	438,052	14,680
10 - RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11 - Past due exposure	**6,230**	**6,129**	**101**	6,051	6,045	6
12 - Other assets	**258,055**	**258,055**	**-**	323,470	323,470	-
13 - Claims on securitised assets	**-**	**-**	**-**	-	-	-
	5,958,655	**4,414,708**	**1,543,947**	5,724,865	4,208,728	1,516,137

b. Average gross credit exposures

	2017			2016		
	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	**475,000**	**475,000**	**-**	371,618	371,618	-
2- Claims on international organisations	**-**	**-**	**-**	-	-	-
3- Claims on PSEs	**109,069**	**109,069**	**-**	48,885	48,885	-
4- Claims on MDBs	**1,925**	**1,925**	**-**	5,739	5,739	-
5- Claims on banks	**1,333,844**	**1,023,591**	**310,253**	1,211,446	934,313	277,133
6- Claims on corporates	**2,946,288**	**1,741,064**	**1,205,225**	2,893,451	1,829,770	1,063,681
7- Claims on central counter parties	**-**	**-**	**-**	-	-	-
8- Cash items	**219,709**	**219,709**	**-**	200,944	200,944	-
9- Regulatory retail	**459,023**	**444,512**	**14,512**	456,509	440,095	16,414
10 - RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11 - Past due exposure	**6,141**	**6,087**	**54**	9,739	9,712	27
12 - Other assets	**290,763**	**290,763**	**-**	298,161	298,161	-
13 - Claims on securitised assets	**-**	**-**	**-**	-	-	-
	5,841,762	**4,311,720**	**1,530,044**	5,496,492	4,139,237	1,357,255

c. Total credit exposures by geographic sector

	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	**2,694,791**	**175,962**	**47,275**	**41,401**	**-**	**2,959,429**
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	**-**	**-**	**-**	**-**	**-**	**-**
	4,141,950	**1,419,043**	**299,948**	**63,696**	**34,018**	**5,958,655**
Percentage of total credit exposure by geographical sector	**69.5%**	**23.8%**	**5.0%**	**1.1%**	**0.6%**	**100%**

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

d. Funded credit exposures by geographic sector

	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	**-**	**-**	**-**	**-**	**-**	**-**
	3,049,046	**1,120,846**	**188,833**	**22,113**	**33,870**	**4,414,708**
Percentage of total credit exposure by geographical sector	**69.1%**	**25.3%**	**4.3%**	**0.5%**	**0.8%**	**100.0%**

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

e. Unfunded credit exposures by geographic sector

	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	1,067,854	69,286	36,775	41,401	-	1,215,316
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	-	-	-	-	-	-
	1,092,904	298,197	111,115	41,583	148	1,543,947
Percentage of total credit exposure by geographical sector	70.8%	19.3%	7.2%	2.7%	0.0%	100.0%

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

f. Total credit exposures by residual maturity

	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	**402,247**	**483,202**	**498,091**	**483,061**	**1,092,828**	**2,959,429**
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	**-**	**-**	**-**	**-**	**-**	**-**
	1,267,796	**959,153**	**753,708**	**588,159**	**2,389,839**	**5,958,655**
Percentage of total credit exposures by residual maturity	**21.3%**	**16.1%**	**12.6%**	**9.9%**	**40.1%**	**100.0%**

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

g. Funded credit exposures by residual maturity

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
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 total credit exposures by residual maturity	25.5%	14.2%	13.1%	7.8%	39.4%	100.0%

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

h. Unfunded credit exposures by residual maturity

	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	-	-	-	-	-	-
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	**113,124**	**212,825**	**153,038**	**207,060**	**529,269**	**1,215,316**
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	-	-	-	-	-	-
	142,453	**334,263**	**174,136**	**241,744**	**651,351**	**1,543,947**
Percentage of total credit exposures by residual maturity	**9.2%**	**21.6%**	**11.3%**	**15.7%**	**42.2%**	**100.0%**

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

i. Impaired loans and provisions by standard portfolio

	2017			2016		
	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	1,342	(593)	749
7- Claims on central counter parties	-	-	-	-	-	-
8- Cash items	-	-	-	-	-	-
9- Regulatory retail	9,995	(5,054)	4,941	10,667	(5,544)	5,123
10 - RHLs eligible for 35% RW	-	-	-	-	-	-
11 - Past due exposure	-	-	-	-	-	-
12 - Other assets	-	-	-	-	-	-
13 - Claims on securitised assets	-	-	-	-	-	-
	12,465	(6,448)	6,017	12,009	(6,137)	5,872

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

	2017		2016	
	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	478,523	6,771	465,482	9,130
7- Claims on central counter parties	-	-	-	-
8- Cash items	-	-	-	-
9- Regulatory retail	27,272	-	41,751	-
10 - RHLs eligible for 35% RW	-	-	-	-
11 - Past due exposure	-	-	-	-
12 - Other assets	-	-	-	-
13 - Claims on securitised assets	-	-	-	-
	505,795	6,771	507,233	9,130

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

	2017		2016	
	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	726	(1,266)	425	88
6 - Claims on corporates	117,984	(21,816)	117,737	63,726
7 - Claims on central counter parties	-	-	-	-
8 - Cash items	-	-	-	-
9 - Regulatory retail	5,632	2,953	5,239	3,383
10 - RHLs eligible for 35% RW	-	-	-	-
11 - Past due exposure	-	-	-	-
12 - Other assets	3,223	66,387	3,869	(18,570)
13 - Claims on securitised assets	-	-	-	-
	127,564	46,258	127,270	48,627

l. Impaired loans and provisions by geographic sector

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

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

m. Movement in provisions

	2017			2016		
	KD 000's			KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**14,356**	**127,270**	**141,626**	16,729	108,609	125,338
Write - offs	**(16,316)**	**-**	**(16,316)**	(85,401)	-	(85,401)
Exchange differences	**(1)**	**42**	**41**	(1)	(5)	(6)
Ceded to Central Bank	**(8)**	**-**	**(8)**	(11)	-	(11)
Statement of income	**12,087**	**252**	**12,339**	83,040	18,666	101,706
Prevision 31 December	**10,118**	**127,564**	**137,682**	14,356	127,270	141,626

n. Credit exposures after CRM and CCF

	2017		2016	
	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	**-**	**540,736**	-	409,634
2 - Claims on international organisations	**-**	**-**	-	-
3 - Claims on PSEs	**-**	**120,369**	-	97,769
4 - Claims on MDBs	**-**	**-**	3,850	-
5 - Claims on banks	**972,806**	**282,307**	802,493	341,636
6 - Claims on corporates	**69,174**	**1,944,277**	37,582	1,827,000
7 - Claims on central counter parties	**-**	**-**	-	-
8 - Cash items	**-**	**207,288**	-	232,130
9 - Regulatory retail	**-**	**453,832**	-	439,608
10 - RHLs eligible for 35% RW	**-**	**-**	-	-
11 - Past due exposure	**-**	**5,668**	-	5,554
12 - Other assets	**-**	**251,941**	-	308,411
13 - Claims on securitised assets	**-**	**-**	-	-
	1,041,980	**3,806,418**	843,925	3,661,742

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 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	2,959,429	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	-	-	-	-
	5,958,655	626,023	285,782	-

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

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:

	2017	2016
	KD 000's	KD 000's
1 - Interest rate position risk	**-**	-
2 - Equity position risk	**-**	-
3 - Foreign exchange risk	**175**	388
4 - Commodities risk	**-**	-
5 - Options	**-**	-
	175	388

IX- Operational risk

The Group uses the standardised approach for computation of operational risk capital charge that amounted to KD 31,758 thousand (2016: KD 30,089 thousand) which primarily involves segregating the Group's activities into eight business lines and applying the relevant beta factors to the average gross income for each business line as defined in the CBK's rules and regulations pertaining to capital adequacy standard. However, capital for operational risk is separately calculated for pillar two purposes using a variation of the standardised approach based on the results of the operational risk scorecard.

X- Equity position in the banking book

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

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

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

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

	2017	2016
	KD 000's	KD 000's
1- Value of investment disclosed in the balance sheet	**200,682**	194,137
2- Type and nature of investment securities Available for sale		
Equity securities -quoted	**170,583**	161,792
Equity securities -unquoted	**30,099**	32,345
	200,682	194,137
3- Cumulative realised gain (net) arising from sales of investment securities	**3,374**	733
4- Total unrealised (loss) gain (net) recognised in the balance sheet but not through profit and loss account	**21,168**	(2,035)
5- Capital requirements		
Available for sale	**38,232**	36,494

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:

	2017		2016	
	KD 000's		KD 000's	
	Impact on earnings		Impact on earnings	
	±@1%	**±@2%**	±@1%	±@2%
Kuwaiti dinars	**9,868**	**19,736**	10,564	21,128
US dollars	**812**	**1,624**	844	1,688
Other currencies	**2,104**	**4,208**	696	1,392
	± 12,784	**± 25,568**	± 12,104	± 24,208

XII- Remuneration

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

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

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

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

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

1- Review the Bank's remunerations policy before presenting the same to the Board of Directors, oversee application thereof and propose amendments thereto if necessary, taking into account the Bank's financial subsidiaries when preparing this policy

2- Conduct independent review of the remuneration policy or upon the Board of Directors' request .This review can be conducted by Internal Audit Department (IAD) or an external consultant.

3- Regularly evaluate the sufficiency and effectiveness of the remuneration policy in serving the objectives for which it was set.

4- Ensure that the Bank's Executive Management has set accurate systems and procedures and effective supervision mechanism in order to ensure compliance with the Central Bank of Kuwait's instructions and the Board of Directors' decisions on remunerations.

5- Recommend to the Board of Directors the level and components of remuneration of the Managing Director (MD), the Chief Executive Officer (CEO) and his deputies & assistants and the remuneration of any other job as may be determined by the Board of Directors.

6- Verify that the remuneration policy and the procedures adopted by the Bank and its financial subsidiaries with respect to remunerations are in line with Corporate Governance rules and systems as outlined in the Central Bank of Kuwait's instructions.

During 2017, no external consultant has been sought.

The remuneration policy was approved by the Board of Directors on 28 November 2017. The policy should be reviewed and updated every 3 years or as required by the regulators or Board of Directors whichever is earlier.

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

1- The Bank adopts remuneration policy that will cover all the employees of the Bank by applying a system that will classify, appraise and describe all the jobs that should be executed by the employees who have the expertise and skills that commensurate with the said system.

2- The policy will take into account the legal and regulatory requirements in addition to the rules and laws enforceable in Kuwait as well as the level and range of salaries and remuneration in the banking and financial sector when determining the level of salaries and remuneration in the Bank.

3- Remunerations are divided into fixed remunerations which include salary, fixed package & pay and variable remunerations which are based on staff performance appraisal. However, based on the applicable Corporate Governance rules, variable remunerations encompass remunerations linked to staff performance over a term of 3 years which is also associated with the risks involved in the duties assumed by the staff member, thus such variable remuneration can be clawed back.

4- All staff is subject to annual appraisal where variable remunerations, if any will be determined by this appraisal.

5- As for promotions and apart from the annual appraisal of staff members, promotions would take into account the Bank's need to get staff members promoted to higher grades in addition to the extent of staff preparedness to develop his skills to cope with the responsibilities of the new higher position.

6- Heads of compliance, internal audit and risk management departments will be appraised by the Chairman where the CEO will not have any role in such appraisal. Thus, the promotions and remunerations that will be decided and determined by the senior management at the Bank will count on this appraisal.

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

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

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

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

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

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

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

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

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

- Fixed Remuneration
- Variable Remuneration

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

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

BNRC met 3 times during 2017. As to remuneration paid to its members please be advised that remuneration paid to those members for 2017 cover their memberships in other Board Committees and any other tasks assigned to them by the board. Total remuneration KD 530 thousand (2016: KD 530 thousand) paid to members of Board of Directors is disclosed in Bank's annual report on aggregate level according to Central Bank Kuwait's instructions related to Corporate Governance.

The annual bonus paid to employees at the end of 2017 is as follows:

	2017	2016
	KD 000's	KD 000's
Amount paid	**1,557**	1,564
No. of employees	**1,490**	1,306

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:

	2017		2016	
	No. of Employees	**KD 000's**	No. of Employees	KD 000's
Amount paid to:				
Kuwaiti employees	**37**	**470**	6	42
Non Kuwaiti employees	**176**	**605**	79	531

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

	2017		2016	
	KD 000's		KD 000's	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Fixed				
Cash-based	**12,457**	**-**	9,070	-
Shares and share-linked instruments	**-**	**-**	-	-
Other	**-**	**-**	-	-
Total fixed	**12,457**	**-**	9,070	-

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:

	2017		2016	
	No. of Employees	**KD 000's**	No. of Employees	KD 000's
Senior Management	**13**	**1,309**	13	1,164
Material Risk Takers	**339**	**10,099**	330	6,985
Financial & Control Functions	**42**	**1,049**	36	921
		12,457		9,070

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Branch Network	Tel	Fax	شبكة الفروع
Mubarak Al-Kabir	22990001	22464870	مبارك الكبير
Abdulla Mubarak Street	22990005	22404826	شارع عبدالله المبارك
Airport (Arrival)	22990004	24741951	المطار (الوصول)
Airport (Cargo)	22990235	24712088	المطار (الجمارك)
Al Rai	22990045	22990825	الري
Ali Sabah Al Salem	22990042	23280662	علي صباح السالم
Al Naeem	22990056	24571797	النعيم
Al Rabia	22990057	22990547	الرابية
Al Messila	22990065	22990815	المسيلة
Andalus	22990036	24889129	الأندلس
Ardhiya	22990019	24887316	العارضية
Dahiyat Abdulla Mubarak	22990059	22990193	ضاحية عبدالله المبارك
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	الصليبخات
Vegetable Market	22990028	24817859	سوق الخضار
Yarmouk	22990032	25352182	اليرموك

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