BOARD OF DIRECTORS

Ali Mousa Al Mousa
Chairman & Managing Director

Abdulrazzak A. Al Kandari
Deputy Chairman

Sheikh / Ahmed Duaij Al Sabah
Member

Abdulrahman Abdullah Al Ali
Member

Salem Ali Hassan Al Ali
Member

Majed Ali Owaid Awad
Member

Mahmoud A. A. Behbehani
Member

Fowzi Abdul Mohsen Al Ateeqi
Secretary To The Board

CHAIRMAN & MANAGING DIRECTOR'S MESSAGE

Ali Mousa Al Mousa
Chairman & Managing Director

Dear Shareholders,

On behalf of the Board of Directors and the Executive Management Team, I have the pleasure to present the Bank's annual report for 2012 which contains certain information and statements pertaining to its business activities.

First: Corporate Governance Report

The banking sector in Kuwait saw a new phase in terms of its management and operational environment with the implementation of a new Corporate Governance system where regulators represented in the Central Bank of Kuwait laid down the features of such system and are now monitoring implementation and compliance thereof consistent with the international standards and best banking practices. Furthermore the banking sector should also get ready to meet the requirements of Capital Market Authority and Ministry of Commerce & Industry under the new companies law No. 25/2012 and related amendments and its Executive Regulation due to be issued shortly. Transparency is considered the cornerstone of the new rules and requirements of Corporate Governance and reflected in disclosures made by banks for related parties and others.

Commercial Bank of Kuwait endeavoured to meet Corporate Governance requirements where the Bank implemented many requirements thereof before the mandatory date set by the Central Bank of Kuwait. The Bank has embarked on reviewing and updating its organizational structure along with its policies and business mechanisms so that the Board of Directors and all the Bank's departments can adjust and fine-tune their business mechanisms to be in line with Corporate Governance requirements.

As such, and not as usually followed, my message and the annual report between your hands at the moment shall hopefully meet the highest disclosure and transparency standards.

Second: The Bank's Performance and Financial Highlights

The Bank's Management endeavoured to improve quality of assets through two directions: first by seeking final settlement for non-performing loans by either amicable or judicial ways where our Bank considerably reduced the percentage of its Non Performing Loans, (NPLs) which stood at 2.76% compared to an average percentage of 4.95% for the banking sector in Kuwait. Secondly, we have opted on strengthening the Bank's provisioning base where provisions coverage for NPLs stood at 169% at the end of 2012 compared to 94.8% for the Kuwaiti banking sector. We denote that the measures taken by the Bank's Management led to high capital adequacy ratio which reached 19.95%.

Third: Business Growth

This year saw slight decline in corporate loans by 5.48% i.e. from KD 1,899 million to KD 1,795 million due to the selective approach the Bank has adopted in extending credit facilities targeting the good customers and promising and yielding projects. Additionally, the Bank changed the terms and conditions covering the granting of new loan and facilities. Nevertheless, the Bank may not ignore the general credit restraints in Kuwait, particularly with the scarcity of vital projects that require credit facilities and finance. As for the retail loans, they increased by 8.25% i.e. from KD 403 million to KD 436 million.

As regarding the operating income, it decreased from KD 129.9 million to KD 123.2 million and shareholder's funds increased from KD 531.4 million up to KD 553 million. The Bank has declared net profits of only KD 1.2 million.

Fourth: International Activity

Commercial Bank of Kuwait is proud for being a local bank with the full meaning of the word, placing thereby great emphasis on providing its services and products to its local customers and will continue in adopting this approach for the future. However, this does not prevent the Bank from expansion in certain international operations, especially in the area of international trade finance and the international projects between Kuwait and brotherly countries.

Fifth: Outlook

We have a positive outlook for domestic economic activity on the short term and this is generated mainly from the State's strong public finance and relies on public expenditure, particularly capital expenditure where published statements indicate that a number of government projects are in the pipeline. However, we will adopt a prudent approach in 2013 where competition among local banks is expected to become more fierce, specifically in pricing the banking services offered by banks. Though this fierce competition shall be for the benefit of consumers and borrowers, it will constitute a mounting concern and shall impose further challenges for the Bank and all other local banks.

As for our vision to the Bank's profitability, it is inevitable to disclose that the mechanism of determining net profit and dividends in Kuwaiti banks and declare the same is not a matter to be decided only by Kuwaiti banks' managements but it is a decision taken jointly by banks' managements and the regulatory authorities. It is irrational and unprofessional to forecast the decisions of the regulatory authorities as such decisions are discretionary for them and the final say for local banks to declare net profits lies in the hands of the regulatory authorities.

As for credit growth, the Bank will continue its selective approach in extending credit facilities with more focus on profitability and less risky activities regardless of the negative effect this may leave on credit expansion. Thus, we do not foresee significant growth to be achieved in credit activity in 2013.

On the other hand, and despite the Bank's endeavours to focus on retail loans expansion, there exists a new factor that may have adverse impact on this, namely the State purchasing some of banks' consumer and instalment loan portfolios within the so called "Family Fund" currently discussed in the National Assembly, where the size of this portfolio and its returns can significantly drop, but until the date of preparing this speech, there are no clarifications on the nature of this other Family relief Fund that may come into existence.

The Bank proceeded with focus on upgrading and improving its services targeting development of technologies used in providing services to our customers.

The Bank shall, among its general plans for 2013, expand its domestic branches network within the narrowest limits where development in the process of providing services via information technology methods is more effective at present and is regarded as the future of the banking industry. The Bank already operates a large domestic branch network with 52 branches. The Bank persistently endeavours to assess performance of these branches and their business activities throughout Kuwait with due observation of feasibility of exchanging the locations of these branches if so required.

In conclusion, I wish to express sincere gratitude and appreciation to His Highness the Amir Sheikh / Sabah Al-Ahmed Al-Sabah, His Highness the Crown Prince Sheikh / Nawaf Al-Ahmed Al-Sabah, and His Highness the Prime Minister Sheikh / Jaber Mubarak Al-Hamad Al-Sabah for their support towards banking sector. The Board of Directors would also like to extend thanks to the Central Bank of Kuwait's Governor and all regulatory agencies for their continuous support to the Banking sector in Kuwait.

I would also like to take this opportunity to express gratitude to our valued shareholders for their continued support of Commercial Bank of Kuwait and all our customers for their trust and confidence in our services and the Executive Management Team and our employees for their dedication and loyalty at work.

Ali Mousa Al Mousa
Chairman & Managing Director

ECONOMIC BACKGROUND

GLOBAL ECONOMY

Lingering economic uncertainties continued to haunt the global economy in the year 2012. Major world economies are moving on the wheels of Quantitative Easing Programs. Euro Zone debt crisis still hangs as a serious threat to both advanced as well as emerging economies.

IMF has lowered its forecast for global economic growth to 3.9% in 2013 and warned that the outlook could dim further if the policy makers in Europe couldn't quell their debt problems faster.

From the look of what is happening around the world, 2013 is going to be a very difficult year with many challenges hanging on threatening global growth, of which few are:

- Disruptive Eurozone debt issues;
- Recessionary pressure in the US on the back of tax increase and spending cuts;
- Geopolitical tension in the Middle-East & Korea peninsula.
- Slow growth in China and other emerging economies.

Generally, the outlook seems rather weaker and further economic disaster is looming in the horizon as ballooning public debts and unsustainable budget deficits in most advanced economies have curtailed the scope for further financial stimulus.

KUWAIT ECONOMY

Political uncertainties in the region impacted Kuwait economy rather negatively during the year 2012, as many of the development projects kept on side times. However, Central Bank's timely measures opting appropriate monetary and fiscal policies helped to contain negative effects and provided stability to the economy. As a further step to bolster Kuwait economy, Central Bank slashed Kuwaiti Dinar discount rate by 50 bp. to 2% in October 2012, which is the first such action since February 2010.

Like any other GCC country, Kuwait is also heavily reliant on oil income which accounts almost 50% of its GDP and 90% of revenues. Kuwait generated robust oil income in 2012 as oil prices continued to remain high and also on lower spending than planned, Kuwait achieved record budget surplus during the current fiscal year ended in March.

Market is widely anticipating the political dead lock to come to an end sooner and year 2013 to witness launching of development projects to take the economy to a sustainable new high level.

KUWAIT STOCK EXCHANGE

Overall sentiment in the Kuwait Stock Exchange during 2012 was rather pessimistic as the prolonged political uncertainty in the region and the sustained volatility on global equity as well as oil market kept investors wary of raising further risk exposure. Stock index moved in a narrow range between 6,522 and 5,618 in 2012 as against 7004 and 5,746 in the previous year.

Liquidity remained pretty high in the banking system on the back of relatively robust oil revenues, thanks to high oil price, resulted in lower interest rate and yet this was not mirrored in the stock market pointing towards slow credit growth vis-à-vis economic growth.

The year 2013 is in the offing with full of expectations and with the implementation of government's already announced ambitious development plans, economic reforms, possibly higher oil price and above all better corporate results will bring blossom to the market again.

REVIEW OF OPERATIONS

RETAIL BANKING DIVISION

Commercial Bank of Kuwait's Retail Banking Division offers individuals a comprehensive suite of retail banking products and services. It provides these through an extensive branch and self-service terminal network, via dedicated customer service agents and through the internet. The Retail Banking Division focused, during 2012, on enhancing the Bank's position in retail service offerings by developing its products and services and launching new others. The first quarter of 2012 saw the Bank launching its Premier Banking segment which replaced the LEAD segment with new eligibility criteria in terms of salary and total holding. In addition, more features were introduced and 14 Premier Banking Locations were assigned across the branches' network to offer a better service for Commercial Bank's Premier Customers.

Furthermore, Premier Banking customers have now their own webpage on the Bank's website through which they can learn more about the tailored-made services to cater for their needs. Along with this, the Bank has introduced its Visa Platinum card in the first quarter of 2012; this new card comes in four designs to allow customers the freedom to choose the design that suits their style. In addition to this, the Bank has signed a deal with the renowned Priority Pass company to automatically offer Priority Pass card that gives free access to more than 600 airport lounges across the world for VISA Platinum and Infinite cardholders.

Special promotions and discounts were concluded with high end stores for Premier Banking Segment. Our Premier Banking customers were advised of the same through SMS and on their personal email.

During the year, the Bank also launched with great success the Gift Card which came in three denominations, KD 20, KD 50, KD 100. The non-loadable Gift Card is considered a great gift idea, and can be used for POS and online purchases and it is available over the counter in all branches.

During the year, Retail Banking Division continued to partner with merchants and retailers with the objective of providing CBK credit and prepaid cardholders special discounts at selected outlets and renowned merchants through cash back agreements concluded with these merchants to bring good deals for cardholders.

In addition, all around the year, 10% discount partnership was concluded with Maachla the online grocery shop for all CBK cardholders.

Commercial Bank of Kuwait's credit cards continue to offer a host of privileges and benefits to cardholders. The credit cards offered by CBK continue to provide customers with convenient and flexible way for managing their finance where the Bank offers customers a suite of credit cards to select the desired credit card that best matches their spending limit. Commercial Bank of Kuwait's credit cards come with embedded state-of-the-art chip and provide SMS alerts for every transaction, giving customers total control and peace of mind.

The Card Center continued its endeavors to provide the maximum protection levels to customers through employing state-of-the-art technological features in the card industry. The Call Center also continued to provide customers with tele-banking services at fingertips by responding to their queries, specifically during long holidays and beyond the official business hours.

CORPORATE CREDIT DIVISION

Corporate Banking Division is the main revenue earning division of the Bank which manages about 70% of the total assets of the Bank.

Following a more focused and prudent credit policy on the backdrop of the continuing difficult scenarios created by the global financial crisis and the regional political situations, Corporate Credit Division has been consolidating their position by reducing the non performing assets and enhancing the quality wherever and whenever necessary.

Simultaneous to adopting a highly cautious approach, Corporate Credit Division continued to make enormous contributions to the national economic and social development activities by providing specific financing for projects valued over KD 350 million during the year. The project employers included, but not limited to, Ministry of Public Works, Ministry of Electricity and Water, Ministry of Public Health, Kuwait Oil Company, Kuwait National Petroleum Company, Kuwait University, etc.

In the process to continue to retain our role as a major player in the local banking community, we are actively working on providing the required financing packages for contracts worth about KD 130 million at present.

Apart from our brisk activities for the public sector projects financing, the Division has played a major role in a complex syndication deal involving both local and international banks for one of the prime clients in the Investment Sector. These are apart from the traditional financing of several well known real estate properties, equity financings and general trade involving complex import transactions.

Corporate Credit Division has a very strong team of mainly Kuwaiti professionals who continue to provide tailor made financial packages based on the industry needs and specific purpose of the financings. To meet high professional standards, the Division is keen to provide their staff members with the training required in order for them to keep up-to-date with the changing scenarios of the local and international markets.

Corporate Credits final goal is to provide our clients with a complete package of financial services simultaneous to acting as their financial advisors.

INTERNATIONAL BANKING DIVISION

CBK's relationship with banks located in the local, regional and international markets allow us to support our customers and shareholders. Through CBK correspondent banks, International Banking Division maintains a broad base of reciprocal business and takes proprietary positions in investing in trade related transactions and other lending activities. Additionally, the International Banking Division supports the various banking needs of the Multinationals by providing credit facilities specifically tailored to meet their particular requirements.

TREASURY

In the modern but unstable and fast changing economic environment, Treasury adopted a focused approach towards managing the Bank's Asset & Liability by successfully integrating the operations of different financial markets.

Treasury equipped with high technology and with modern communication facilities handles various types of financial transactions for customers to meet their challenges with minimum cost impact and that kept Treasury as a preferred choice among the corporate community.

Treasury has set-up dedicated Desks with professionally experienced dealers for undertaking various types of Treasury activities focusing mainly through:

- **Foreign Exchange Desk:** Trading in FX Spot/ Forward & Swaps.
- **Money Market Desk:** Taking care of Cash Flow Management, Fixed Income Securities, Liquidity and other related Statutory Ratios Management etc.
- **Corporate Desk:** Taking care of corporate client's requirements offering various types of Treasury products in deposits/Foreign Exchange including hedging of foreign currency and interest rate risks through forward covers.

Moving further forward, Treasury is now revitalizing its focus in the field of corporate bond investments with the aim to diversify asset class and simultaneously targeting for higher portfolio yield.

Treasury has also given special attention in boosting relationship with GCC as well as international banks and that has benefited the Bank with larger credit lines allocated.

Efficiency and effectiveness built on ethical practice combined with innovative technology are Treasury's key 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.

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

Treatment of different types of risks:

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

a) Credit Risk

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

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

The Bank introduced a revised obligor risk rating model during the year. It utilises an advanced algorithm using both financial and non-financial parameters to generate an obligor risk rate. 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 of external credit rating agencies like Moodys and S&P, are in place to ensure adequate portfolio diversification in terms of sovereign ratings and geographical exposures. The Division also implemented a sector risk assessment model allowing more granularity in sector classification.

The Bank also measures economic capital for credit risk including that for name and collateral concentration under Pillar two of Basel II.

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.

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. The erstwhile limit for the loan to deposit ratio was replaced during the year with the new limit for maximum amount allowed for lending, in line with the Central Bank's instructions. 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 a single customer and also deposits maturing within specific time bands thereby ensuring that the sources of funding remain adequately diversified. 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 II using internally developed methodology is also measured regularly.

The Basle Committee for Banking Supervision has introduced the Basel III regulations covering, among others, a global framework for liquidity risk management. While these regulations are currently being developed for Kuwait banks, the Bank has in 2012 proactively introduced the new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). These ratios are being measured and monitored regularly against internal limits that are progressively phased to meet the regulatory standards.

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. During the year, the Bank moved from a single, across-the-board rate shock on the IRSM to varied rate shocks for different time buckets/currencies for calculating the EaR. In addition, the economic value of equity is required to be calculated under certain pre-defined circumstances. Economic capital under pillar two for interest rate risk is measured regularly using an internally developed methodology.

e) Operational Risk

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

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.

INFORMATION TECHNOLOGY

Our information technology strategy continues to focus on increasing customer convenience by targeting a 24/7 service availability, reducing customer complaints and closely review customer feedback to tailor and satisfy their experience and expectations.

Implementing Solutions and Meeting Challenges

The Information Technology Department successfully met several challenges during 2012 thanks to the efforts of the staff in the Department. Major projects with emphasis on Customer Service have been completed and/or enhanced like: Account information through Internet Banking, Phone Banking and SMS services.

New Core Banking System Delivering Customer Advantages

The Legacy Core Banking system running on IBM Mainframe has been totally phased out and fully replaced with the BML/ICBS system.

New ATM and Card Features

During the year, Information Technology continued upgrading of the Bank's ATMs and its Card Management systems. This ensures that the Bank's ATMs are fully compliant with both Visa and MasterCard EMV requirements. The ATMs in 12 branches are offering cash deposit services to our customers with more planned expansion in this trend for our customers' covenience. The Branch Issuance (Instant Issuance) of debit cards is now available in 28 branches for the convenience of our customers.

Disaster Recovery and Business Continuity

ITD has established a new Disaster Recovery Data Centre at the Bank's location in Beirut Street. This has been done in line with the new Central Bank strict regulations in order to ensure continued services to the Bank's Customers in case of disruptive events to the primary Data Centre.

OPERATIONS DIVISION

The Operations Division continues to consistently deliver and support the customer facing verticals of the Bank to enable the front end meet the value propositions committed to the customers.

In 2012 to enhance Customer Convenience & Delivery for its customers, CPD's functions were carefully studied to be re-engineered & automated. As a result, the transactions processing reflected "a real time processing effect" on the end customer's account relationships.

In Trade Finance Services, extensive "cross functional" on the job training of staff, has equipped the unit with the required know-how to meet the increasing customer demands and improving quality in service levels.

Treasury Operations have achieved 100% perfection in processing payment messages, being explicitly appreciated by the correspondent banks and ensured “Zero” customer complaints. The spade has been put on the ground starting 3rd quarter of 2012 to implement ICBS to increase efficiency in line with the overall strategy of the Bank.

The Account Processing & Records Management back-office has focused on “Customer satisfaction”, “Compliance” to Central Bank & “Cost Effectiveness”. The joint exercise with RBD’s quality assurance team to improve quality in Customer Service has been a successful start since March 2012 & continues to show consistency.

The Bank continues to work on enhancing operational efficiency across the organization. The focus being “Customer Convenience”, a dedicated unit called “iSPEED” (Information Systems & Process Excellence Enabling Department) has been set up starting 3rd quarter, evolving the existing PMO to a “Multi-faced” department. This significantly widens the scope of engagements and aligns the project pipeline to the larger objectives of the Bank. iSPEED houses three independent yet inter-connected verticals – Process Excellence (PEX), Program Management Office (PMO) and Procedure Documentation & Repository (PDR). The objective of iSPEED is “Excellence via Re-engineering”; pave the path to increase business acumen along with other programs of strategic importance to the Bank. iSPEED is equipped to ring-fence bank-wide processes & systems, focus on the granularity to enhance delivery architecture & fully enable the “Customer Convenience” aspect of banking in the market.

HUMAN RESOURCES DEPARTMENT

The Human Resources Department promotes efficiency, productivity and employee development and satisfaction within the Bank. The Department fosters the development of a performance culture that promotes positive work and an environment that contributes to employer-employee satisfaction. The Department supports employees in achieving professional and personal growth and encourage localization of jobs by providing Kuwaiti graduates employment and career development opportunities within the Bank’s ongoing efforts to raise the percentage of Kuwaiti laborers which currently stands at 60% of total workforce in the Bank.

The Human Resources Department performs these core functions:

- Administrate salaries and benefits.
- Advise on personnel policy matters and provides employee assistance.
- Recruit and selects competent and job-fit employees.
- Promote an environment favorable to staff development and training.
- Conduct human resource planning.
- Plan for staff training and development.

The Department takes leadership in fostering a positive work environment that places high value on professional and collaborative work relationships while recognizing the importance of individual contributions. It encourages and maintains open communication channels within the Bank as a reliable resource to managers and employees who have questions or issues relating to workplace policies and procedures.

Staff Planning and Recruitment Section performs these core functions:

- Ensure a recruitment and selection of a high quality diverse work force for the Bank.
- Attract and develops young talents by means of the New Recruits Program.
- Forecast staffing requirements; plans for and coordinates all staffing needs, organizational design and structures.
- Provide emerging talents with the opportunity to acquire professional and practical experience through the internship program.

Compensation and Benefits Section performs these core functions:

- Develop, implement and maintain competitive and equitable compensation and benefits policies and programs that enable the Bank to attract, recruit, motivate and retain highly qualified people.
- Responsible for job classification and management of merit-based pay system in line with Bank's policy of reinforcing pay for better performance.
- Lead in identification and recommendation of competitive pay and rewards systems in line with the current trends in similar organizations.

The Training Unit is responsible for:

- Providing employees with the proper training that will equip them with the needed skills.
- Proactively looks after employees training needs to meet and exceed banking and management internationally recognized standards.
- Enrolling employees in recognized certification programs in credit management, branch management, assistant bank branch manager, etc.
- Arranging to enroll employees to attend outdoor training courses and seminars in specialized topics.
- Designing special training programs for new recruits with view to provide them with first-hand knowledge on banking, financial and investment areas.

As such, the Human Resources Department is committed to ensuring that the Bank attracts, recruits, develops, retains and sustains a high performing, diverse work force by developing and implementing progressive human resource management policies and strategies.

INTERNAL AUDIT

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

The annual audit plan is tailored based on the risk assessment of the various business and operating units and approved by the Board Audit Committee. Audits performed during the year, inter alia, covered the various business and operational areas including Bank's ICAAP process, System audits of the implemented core banking modules, System Vulnerability Analysis and Penetration Testing as per approved Audit Plan. Internal Audit also carried out several special investigations on issues referred by the Management and provided advisory services to the Management whenever required by them.

Compliance & AML Department

Compliance with legal and regulatory requirements is one of the most important functions in the banking and financial system on the back of the increasing local legislative and regulatory requirements in all aspects related to banking business, in addition to the requirements of compliance with the related international standards issued from time to time by international regulators, particularly in the aftermath of the financial crisis which battered banking and financial system across the world over the past few years.

Commercial Bank of Kuwait endeavored to cope with the developments seen in compliance with diverse requirements, where Compliance & AML Department has been reengineered and equipped with group of the officials possessing high experience and competence in this area. This step comes to avert financial and reputation risks that may result from non-compliance with the said requirements and with a view to safeguard the Bank and the interests of its shareholders and stakeholders.

Compliance & AML Department coordinates and cooperates with all the Bank's departments on the one hand and with the Central Bank of Kuwait's officials on the other hand in order to ascertain that legal and regulatory requirements are in place and are implemented by the Bank's diverse departments as required.

A Follow Up Unit was set up within Compliance to monitor all remarks and observations being raised by regulatory authorities and internal and external auditors and to ensure that necessary corrective procedures towards these remarks are being taken within the set timeframe. Amidst the increasing regulatory requirements are issues associated with AML & CTF operations which represent mounting concern not only for banking and financial system but also for countries over the globe. Though the Bank has proper systems and procedures to implement the AML & CFT requirements, The Bank's Senior Management has taken a number of procedures to enhance and develop such systems and procedures through the following:

1. Drafting & implementing an updated policy for AML & CTF which was approved by the Board of Directors on 19/3/2012 and includes all requirements as defined by the Central Bank of Kuwait and takes into account the internationally recognized standards.
2. Upgrading the automated systems pertinent to monitoring suspicious transactions in collaboration with one of the leading international companies in this area whereby any transaction not compatible with the customer's usual course of activities can be detected and investigated for any necessary action.
3. Entering into agreement with a major company to provide the Bank with lists of persons and companies that represent risks for the Bank in case of business relationship. This comes to enhance protection for the Bank from risks associated with AML & CTF operations. It is noteworthy that the Bank's existing lists satisfy the Central Bank's requirements on the one hand and international standards on the other hand. These lists also include the blacklisted entities as per the resolutions of the Security Council (United Nations) in addition to lists of the non-cooperative countries in the area of AML & CTF as identified by FATF and other lists issued by diverse countries and organizations.
4. Upgrading & enhancing "Know Your Customer" form to include all information and data required by the Central Bank of Kuwait, in addition to other procedures taken to cope with the requirements of US "Foreign Account Tax Compliance Act" which represents new challenge to Commercial Bank of Kuwait and all international banks. As such and to cope with the requirements of this Act, a taskforce has been formed to study the Bank's commitments in light of the aforesaid Act. Accordingly, necessary procedures have been taken in this regard through coordination among

the Bank's concerned departments and identifying the requirements of this Act i.e. upgrading the Bank's automated systems to facilitate the process of extracting the required information and data and take the necessary action thereon in coordination with legal advisors.

5. Organizing training courses and awareness sessions and other procedures that aim to increase awareness of the Bank staff working in the area of AML & CTF operations.

Compliance & AML Department is poised for any amendments that may arise on regulatory instructions and international standards by developing its procedures for maintaining the Bank's image on the one hand and avoiding any potential risks that may result from non-compliance with such requirements on the other hand.

LEGAL DEPARTMENT

The Legal Department plays an important role in safeguarding the Bank's assets by providing the legal review for all contracts and transactions the Bank concludes with third parties. The Department is also responsible for initiating all necessary legal proceedings in order to protect the Bank against any legal action taken or raised by third parties. Legal Department cooperates with various departments in the Bank to achieve the goals and objectives that are in line with the Bank's general policy and defined strategy. These goals and objectives can be achieved through ongoing coordination and communication with all Bank's staff and by providing them with any legal advices they may need, apart from drafting all types of the required contracts & agreements and eliminating any obstacles that may hinder the work flow at the Bank's departments. Moreover, the Legal Department represents the Bank before all government agencies such as Ministry of Justice, Ministry of Commerce and Industry and all courts with their diverse degrees to provide the utmost scope of protection and safety to the Bank, its shareholders and employees.

ADVERTISING & PUBLIC RELATIONS DEPARTMENT

The year 2012 was another year of remarkable success for the Bank's social responsibility initiatives. The Bank's in-house Advertising and Public Relations Department continued its efforts in several social activity fronts in terms of sponsorships the Bank offers to cover a wide range of activities organized by civil community institutions. Commercial Bank of Kuwait always believes that social responsibility requires the Bank to initiate creative ideas to benefit the society.

The Bank's social responsibility is deeply-rooted through the Bank's continued communication with all the community segments. Further, the Bank enhances its role towards its employees and spares no efforts to boost cooperation and interaction among them. Drawing from this, Advertising and Public Relations Department organized as usual "Al-Tijari Hobbyist" Exhibition which is a distinctive occasion where all the Bank staff meet away from work environment to display their art talents. The Exhibition encompassed an assortment of craft works. The Bank also continued its programs aiming to accentuate social responsibility in various aspects by organizing a unique campaign under the caption "Ya Zeen Turathna". The stat-of-the art- campaign, which lasted for three consecutive months, included various activities salient of which was the Bank's filming and producing a song especially tailored for this campaign in cooperation with Kuwait TV Band. Furthermore, and within the Bank's ongoing efforts to communicate with all the community segments, the Bank launched "Hawwen Alaihom" Campaign which aimed at providing street cleaners and construction workers with water, dust protection face masks at various locations. This innovative campaign was highly commended by the community that proactively interacted therewith.

On another front, the Bank's endeavors to revive Kuwait old heritage continued with the Bank's issuing its annual calendar for 2013 which included vivid scenes from Kuwait old heritage and traditions. The Bank sponsored a number of conferences, seminars and societal activities which highlighted the social responsibility efforts and outreaches of the Bank.

Since the Bank's social activities covered all the community segments and its social responsibility became an example for private sector institutions, the Bank issued a booklet that casts light on the Bank's major social outreaches as socially responsible Bank that cares for the society in which it operates; describing its social activities and detailing some of the most important contributions the Bank offered to such activities.

CORPORATE GOVERNANCE RULES AND SYSTEMS

First: Introduction

Corporate Governance has become an issue of prominent concern over the globe, particularly in the wake of the global financial crisis that battered a number of countries and their major financial institutions. The financial turmoil that aggravated in 2008 with its ongoing implications proved that weak Corporate Governance standards & system were among the reasons for the collapse of several banks and financial institutions across the globe.

As such, international regulators such as Basel Committee on Banking Supervision hastened to prepare new principles and standards to serve as minimum requirements for banking and financial systems. The Central Bank of Kuwait adopted these standards and drafted mandatory instructions for all local banks and the same will come into full force by the beginning of July 2013.

Commercial Bank of Kuwait has previously set prudent Corporate Governance rules and systems that took into account all the instructions issued by the Central Bank of Kuwait over the past years. These rules and systems served as a profound pillar in enhancing the Corporate Governance standards at the Bank and helped in safeguarding it.

Commercial Bank of Kuwait endeavors to prioritize compliance with Corporate Governance rules and systems issued by the Central Bank of Kuwait not only for the purpose of complying with the regulatory instructions but also for safeguarding the Bank, its rights and rights of its shareholders, creditors, staff members and stakeholders.

As for the revised instructions issued by the Central Bank of Kuwait in June 2012, the Bank's Senior Management has, following the receipt of the said instructions, formed Corporate Governance Team headed by the Chairman & Managing Director. The Corporate Governance Team has identified the required actions based on these revised instructions and put in place a number of procedures to ensure accelerated implementation of these instructions.

Second: Board of Directors:

The Board of Directors is composed of 7 Members. Presented below is a synopsis on the Bank's Board Members:

Mr. Ali Mousa Al Mousa – Chairman & Managing Director
Mr. Ali Mousa is of Kuwaiti nationality born in 1947 and held bachelor degree in Management 1970 / American University of Beirut. Mr. Ali Mousa possesses long experience and has occupied many positions in the public & private sectors alike:
- State Minister of Planning & Administrative Development during the period from 1998 to 1999.
- Deputy Governor of the Central Bank of Kuwait during the period from 1992 to 1998.
- Member in Supreme Council for Planning.
- Member in Kuwait Petroleum Corporation's Board of Directors.

In addition, Mr. Al Mousa was a Member in councils and committees such as the College of Commerce, Economy and Political Sciences Council, Industry Development Council and Supreme Education Council, etc. Besides, he had significant contributions in several economic and social development action-oriented committees, councils, parties and forums.

Moreover, Mr. Ali Mousa was a chairman of the board and Member in the board of directors in a number of companies, salient of which are the following:
- Kuwait Investment Company.
- Kuwait International Fair Company.
- Morocco Economic Development Bank (Morocco).
- Arab Bank of Greece (Greece).
- Kuwait Oil Tanker Company.
- Education Institutions & Private Training Establishment.
- International Trade Holding Company.
- Industrial Bank of Kuwait.
- Venture Capital Bank (Bahrain).
- Securities Group Company.
- Commercial Real Estate Company.
- Venture Capital Investment Company (Saudi Arabia).

Mr. Ali Mousa holds the position of the Bank's Chairman & Managing Director in 29/4/2012 and is the Chairman of both the Board Loans Committee and the Board Corporate Governance Committee, in addition to his membership in the following companies' board of directors:
- Commercial Real Estate Company (K.S.C).
- Saudi Venture Capital Investment Company (Saudi Arabia).

Mr. Abdulrazzak A. Alkandari– Deputy Chairman

Mr. Abdulrazzak is of Kuwaiti nationality born in 1943 and held bachelor of political sciences 1966 / Cairo University. Mr. Abdulrazzak possesses long experience in political and diplomatic areas where he was appointed as 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 of Emirates during the period from 2004 to 2006.

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

Mr. Abdulrazzak is the Bank's Deputy Chairman in 29/4/2012 and the Chairman of the Board Nomination & Remuneration Committee. In addition to this, Mr. Abdulrazzak is a Member in both the Board Loans Committee and Board Corporate Governance Committee.

Sheikh / Ahmed Duaij Al Sabah

Sheikh / Ahmed is a Kuwaiti national born in 1978 and held bachelor of Economy and Finance May 2000 / Bentli University, USA and Master in Management January 2008 / from Kuwait Maastricht Business School. Shiekh Ahmed held the following positions during his tenure.
- Financial analyst in Kuwait Petroleum Corporation during the period from 2003 to 2005.
- 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.

In addition to being a Member in the Bank's Board of Directors since 29/4/2012, he is a Member in the Board Audit Committee, the Board Risks Management Committee and the Board Nomination & Remuneration Committee.

Mr. Majed Ali Owaid Awad

Mr. Majed is of Kuwaiti nationality born in 1979 and held bachelor of Commerce / Accounting 2004 / from the Modern Academy for Computer Science & Management – Egypt and bachelor of Business Administration / Accounting 2012 – Bahrain University. Mr. Majed held a number of positions salient of which are the following:

- Chairman – Al Khalijia United Holding Company during the period from 2011 to date.
- Board Member – International United Brokerage Company during the period from 2005 to 2011.
- Board Member – Al Anaam Holding Company during the period from 2007 to 2009.
- Board Member – Al Afrah Oriental General Trading & Contracting Company during the period from 2010 to date.

Besides being a Member in the Bank's Board of Directors in 29/4/2012, he is a Member in the Board Audit Committee, the Board Risks Management Committee and the Staff Complaints Committee.

Mr. Salem Ali Hasan Al Ali

Mr. Salem Al Ali is a Kuwaiti national born in 1973 and held bachelor of Mechanical Engineering 1997 / John Hopkins University and is a Certified Financial Analyst since 2001. Mr. Al Ali held a number of positions salient of which are the following:

- Board Member – Gulf Power Company (holding co.) during the period from 2006 to 2011.
- Board Member – Kuwaiti Saudi Pharmaceutical Industries Company during the period from 2005 to date.
- Board Member – Technology Industrial Gases Production Company during the period from 2011 to date.
- Deputy General Manager – Al Al Rawya Investment & Leasing Company during the period from 2007 to 2009.
- Assistant General Manager for investment in Al Mabani Company during the period from 2000 to 2005.
- Financial Analyst – Global Investment House during the period from 1998 to 2000.

Moreover, Mr. Al Ali holds now the position of Deputy CEO for Financial Affairs – Securities Group Company.

In addition to being a Member in the Bank's Board of Directors since 7/4/2011, Mr. Al Ali is a Chairman of both the Board Audit Committee and the Board Risk Management Committee and he is also a Member in the Board Corporate Governance Committee.

Dr. Mahmoud A. A. Behbehani

Dr. Mahmoud is of Kuwaiti nationality born in 1965 and held doctorate in Economy & Insurance 1998 / Sterling University / Scotland – United Kingdom and Master in actuarial Business (Actuary) 1994 / Boul Stest Indiana / USA and Bachelor of Insurance 1990 / Kuwait University. Dr. Mahmoud occupied a number of positions salient of which are the following:

- Head – Finance & Financial Institutions / Kuwait University during the period from 2007 to 2009.
- Actuary Consultant – National Assembly during the period from 2006 to 2008.
- Head of Advisory Team in Manpower Structuring Program during the period from 2005 to 2007.
- Advisor, Insurance – Ministry of Commerce during the period from 2003 to 2004.
- Expert, Insurance in Supreme Court – Experts Department during the period from 1999 to 2000.

Dr. Mahmoud is a professor in Insurance field, MBA program and higher diploma in Islamic Finance / Kuwait University – College of Business Administration – Finance & Financial Institutions.

In addition to his responsibilities as a Member in the Bank's Board of Directors in, he is a Member in the Board Loans Committee, the Board Nominations & Remunerations Committee and the Board Staff Complaints Committee.

Mr. Abdulrahman Abdullah Al Ali
Mr. Abdulrahman is a Kuwaiti national born in 1953 and held bachelor of Mechanical Engineering 1975 / University of Wisconsin, USA and Master in Business Administration / Finance & Investment 1979 / Weskans University, USA.

Mr. Abdulrahman is an experienced board member offering 30 years of experience which he 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. He is now running some private commercial business in General Trading & Contracting through Arwa Gulf General Trading & Contracting Company.

Besides being a Member in the Bank's Board of Directors in 29/4/2012, he is a Chairman of the Board Staff Complaints Committee and is also a Member in both the Board Loans Committee and the Board Nominations & Remunerations Committee.

Third: The Board Committees:

Within the process of enhancing the Bank's Corporate Governance, CBK formed 6 Board Committees with 6 non-executive Committees. Here below are the duties, responsibilities and authorities of each of the said Committees in brief:

- Board Corporate Governance Committee
  - Mr. Ali Mousa Al Mousa – Chairman, BCGC
  - Mr. Abdulrazzak A. Alkandari
  - Mr. Salem Ali Hasan AL Ali

This Committee was set up to prepare an extensive manual including Corporate Governance rules contained in the Central Bank's instructions and verify implementation thereof.

- Board Risk Management Committee
  - Mr. Salem Ali Hasan AL Ali – Chairman, BRMC
  - Sheikh/ Ahmed Duaij Al Sabah
  - Mr. Majed Ali Owaid Awad

This Committee was set up to oversee Corporate Governance and risk management at the Bank, identify its risk appetite and verify that the Executive Management implements risk strategy & policies approved by the Bank.

- Board Audit Committee
  - Mr. Salem Ali Hasan AL Ali – Chairman, BAC
  - Sheikh/ Ahmed Duaij Al Sabah
  - Mr. Majed Ali Owaid Awad

This Committee was set up to review scope, outcomes and the extent of adequacy of internal & external audit with the Bank, the main accounting issues, internal control systems and regular financial statements and to verify compliance with the regulatory laws and instructions.

- Board Nomination & Remuneration Committee
  - Mr. Abdulrazzak A. Alkandari – Chairman, BNRC

- Sheikh/ Ahmed Duaij Al Sabah
- Mr. Abdulrahman Abdullah Al Ali
- Dr. Mahmoud A. A. Behbehani

This Committee was set up to assist the Board of Directors in implementing Corporate Governance rules on nomination for the Board membership and the required potentials, competence & knowledge that should be continuously possessed by the Board Members. The Committee, further, reviews and assesses the Bank's remuneration policy and the extent to which its goals were served.

• Board Staff Complaints Committee
- Mr. Abdulrahman Abdullah Al Ali – Chairman, BSCC
- Mr. Majed Ali Owaid Awad
- Dr. Mahmoud A. A. Behbehani

This Committee was set up to investigate the Bank staff complaints related to abuse of powers by immediate superiors and those related to promotions and merit increases of staff members.

• Board Loan Committee
- Mr. Ali Mousa Al Mousa – Chairman, BLC
- Mr. Abdulrazzak A. Alkandari
- Mr. Abdulrahman Abdullah Al Ali
- Dr. Mahmoud A. A. Behbehani

This Committee was set up to implement and apply the authorities delegated thereto by the Board of Directors to review and approve requests for extending and renewing credit facilities to the Bank's customers. The Committee also reviews, amends and presents the Bank's credit policy and sovereign credit limits and FX limits to the Board of Directors.

Fourth: Meetings of Board of Directors and its Committees

Here below are the number of meetings of the Board of Directors and its committees from the date the present Board initiated its duties till the end of 2012 along with describing participation by the Board Members.

Meetings	Frequency	Ali Al Mousa	Abdulrazzak Alkandari	Salem Al Ali	Ahmed Al Sabah	Mahmoud Behbehani	Abdulrahmn Al Ali	Majed Awad
Board of Directors	20	20	16	16	17	15	15	15
BLC	25	25	19			20	24	
BAC	6			5	6			4
BNRC	3		3		2	2	2	
BSCC	1					1	1	1
BRMC	2			2	2			1
BCGC	1	1	1	1				

Fifth: Executive Management

Mr. Nuhad Saliba
The CEO

Mr. Nuhad Saliba is an executive banker holding Bachelor degree / American University in Beirut and MBA / Wake Forest University. Mr. Nuhad Saliba has joined the Bank in the position of "Chief Executive Officer" possessing more than 30 years of banking experience in senior and executive positions with a number of prestigious financial institutions, where he worked with Citigroup – Middle East, North Africa, Eastern Europe and held the position of CEO at City Bank in Egypt, Morocco and Gabon in addition to his position as Senior Reviewer – review of risks in Middle Eastern Europe, Middle East and Africa – Citigroup – London.

Mr. Saliba was a Board Member at National Development Bank (Egypt) and a Member in Audit Committee in Bosnia Bank International (Bosnia). Before he joins Commercial bank of Kuwait in March 2012, Mr. Saliba was a top executives with Abu Dhabi Islamic Bank holding the position of GM – Corporate Banking Group and International Banking.

Mr. Saiba manages and oversees the Bank's day-to-day business activities in his capacity as the CEO and he acts as the Head of Credit Committee, Investment Committee and ALCO (Management Committees at the Bank) and also participates in attending meetings of a number of Board Committees such as BLC and others.

Ms. Elham Mahfouz
Deputy CEO

Ms. Elham held a Bachelor with honor degree in Business Administration / American University in Cairo and she is a Member in the legal bankers Institute in London. Ms. Elham joined Commercial Bank of Kuwait in the year 2000 as Manager – International Banking and progressively held top-executive positions holding the position of GM – New York Branch, Acting GM – International Banking, GM – International Banking in December 2010 and she was promoted as Deputy CEO in 2012.

Me. Elham is a Member in Credit Committee, ALCO and Investment Committee (Management Committees) and participates in the diverse Board Committees meetings.

Before joining Commercial bank of Kuwait, Ms. Elham worked with a number of Kuwaiti financial institutions possessing a long banking experience over 28 years.

Mr. Fowzi Al Ateeqi
Secretary to the Board and GM, Investment

Mr. Fowzi Al Ateeqi is a banker holding a Bachelor degree in Economy / San Jose University – USA. Mr. Al Ateeqi joined Commercial Bank of Kuwait in April 1984 and he held a number of posts in the Bank's diverse departments and he currently hols the position of Secretary to the Board and General Manager, Investment, besides being Chairman of Union Securities Brokerage Company as the Bank's representative.

Ms. Sahar Al Rumaih
GM- Corporate Credit Division

Ms. Sahar is a banker possessing more than 25 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 and she holds a Bachelor degree in Economy / Kuwait University. Ms. Sahar manages, in cooperation with her taskforce, the Bank's credit portfolio and she also a Member in the Credit Committee, ALCO and Investment Committee and participates in the BLC meetings and acts as the Bank's representative in the Board of Directors of both First Hotels Company and Tijari Investment Company.

Mr. Adli Ghazal
General Manager & Treasurer

Mr. Adli is a banker holding a Bachelor of Commerce. Mr. Adli joined Commercial Bank of Kuwait in the year 2001 as Senior Manager - Treasury and he has banking experience of more than 40 years in treasury business and financing & liquidity in Kuwaiti banks. Mr. Adli progressively held many positions and he now holds the position of General Manager & Treasurer and he also a Member in Investment Committee and ALCO (Management Committees at the Bank).

Mr. Yaqoub H. Al Ebrahim
GM – Compliance & AML

Mr. Yaqoub is of Kuwaiti nationality and held a Bachelor degree with honor degree in Accounting / USA. Mr. Yaqoub joined Commercial Bank of Kuwait in December 2011 as General Manager, Compliance & AML based on his 30 year experience during his career in the Central Bank of Kuwait where he held the position of Manager, On-Site Supervision Department and he is a Member in the National Committee for AML & CTF. Mr. Yaqoub was also a Board Member in a number of financial and non-financial companies, besides being a Member in a number of local and regional committees.

Mr. G. Chandramohan
GM – Risk Management Division

Mr. Chandramohan joined Commercial Bank of Kuwait in the year 2000 with 22 year experience in risk management and audit. Mr. Chandramohan held a Bachelor of Commerce and a number of professional certificates such as Certified Chartered Accountant, Certified Financial Analyst and Professional Risk Managers International Association (PRMIA) and many other professional certificates in risk management. Mr. Chandramohan is a Member in Financial Accountants Institute in USA and Chartered Accountants Institute in India and he is also a Member in the Credit Committee, Investment Committee and ALCO and participates in the BLC and BRMC meetings.

Mr. Masud Ul Hassan
GM & Financial Controller

Mr. Masud has an experience of more than 20 years in banking industry since 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. Mr. Masud held a Bachelor of Commerce from the University of Punjab, Lahore, Pakistan and obtained diploma in International Financial Reporting Standards and he is an associate Member in the Institute of Costs & Management Accountants in Pakistan and is also a Member in ALCO.

Ms. Huda Sadeq
AGM – Human Resources Division

Ms. Huda is of Kuwaiti nationality and held Bachelor of Accounting and professional certificates in human resources area and she also obtained Professional Certificate in human resources area and indemnities - Scottsdale Arizona / USA in December 2006. Ms. Huda joined Commercial Bank of Kuwait in May 1998 as Head of Auditors – Internal Audit Department and progressively held many positions and she holds now the position of Assistant General Manager, Human Resources Division. Ms. Huda has 29 year experience in local banks.

Mr. Paul Daoud
AGM – Retail Banking Division

Mr. Paul held a Bachelor of Business Administration / Kendi Western - USA. Mr. Paul joined Commercial Bank of Kuwait in 1981 and has experience of more than 30 years in Retail lending area where he progressively held a number of posts in Retail Banking Division and he holds now the position of Assistant General Manager, RBD.

Mr. G. V. Mohan
Acting Head of Operations

Mr. G. V. Mohan is the in-charge in the Bank's Operations Division and he joined Commercial Bank of Kuwait in 1977 and has experience of more than 35 years in Operations. Mr. G.V. Mohan assumed many duties and responsibilities during his service period with the Operations at the Bank and he holds now the position of Acting Head, Operations in addition to his responsibilities for the technical issues relevant to the Bank's ICBS.

Mr. Joaquim Esteves
Acting Head of Internal Audit Department

Mr. Joaquim is an internal auditor joined Commercial Bank of Kuwait in 1979 and held Bachelor of Science / Bombay University – India and also obtained Certified Banking Auditor Certificate from Banking management Institute in Chicago / USA. Mr. Joaquim progressively held a number of posts in Internal Audit Department until he held the position of Acting Head of Internal Audit Department and he also participates in the BAC meetings.

Sixth: Shareholders with Holding in Excess of 5% of the Bank's Share Capital as at 31/12/2012

Al Sharq Holding 23.11%
Securities Group Co.– Clients Account 16.63%

Seventh: The Board & Executive Management's Remuneration

- Chairman
  As per the provisions of Article 21 of Memorandum of Association, the Board of Directors, during the financial year, delegated some of the Bank business to the Board Members through the committees in which they are members, where a remuneration totaling KD 143 thousand has been paid to them in consideration of performance of such business for the period they assumed the duties of the said committees in April 2012 till the end of the financial year.

- Managing Director
  Managing Director's remuneration amounted to KD 135 thousand for the period he was appointed as Managing Director in 3/6/2012 till the end of the financial year.

- Executive Management
  - The CEO's total remuneration paid amounted to KD 513 thousand for the period he joined the Bank in March 2012 until the end of the financial year.
  - Remunerations paid to Deputy CEO, GM – Corporate Credit, GM – Investment, GM – Treasury, GM – Risk Management, GM – FP & C, Head of Internal Audit amounted to KD 570 thousand for the financial year ended on 31/12/2012.

Eighth: Transactions with Related Parties

Total loans extended to Board Members and senior executives and their related parties amounted to KD 101 thousand while their deposits reached KD 766 thousand. The Bank's policy stipulates that these loans, deposits and interest rates should be treated similar to those of the Bank's customers ,i.e. on arms length basis and without any preference.

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

As per the Central Bank of Kuwait's instructions, the Bank engaged the audit firm PricewaterhouseCoopers to review the internal control systems at the Bank. Based on the audit firm's report prepared in June 2012, accounting records and other records and internal control systems examined by the said audit firm for the year ended on 31/12/2011 were in compliance with the requirements of the general guidelines manual issued by the Central Bank of Kuwait on 14/11/1996 and subsequent amendments except for some remarks, details of which are presented below:

1. In 2011, the audit firm reported 8 exceptions of moderate and low risk, while exceptions reported for previous years but still pending were 61 exceptions, 11 of which are categorized as high risk and the remaining are moderate and low risk, bringing total pending exceptions to 69 remarks.
2. In 2012, the Bank has taken the required actions to rectify 45 remarks with only 24 remarks/exception left pending. It is to be noted that most of the remaining exceptions are of moderate and low risk.
3. The remarks raised by the external auditor are related to day-to-day business activities, process & systems and aim to have in place detailed procedures that should govern the processing of the Bank's operations; an issue that is regularly listed on the Board Audit Committee's meeting agenda within the Committee's endeavors to address any remark raised by the external auditor on internal control systems.

Tenth: Financial and Non-Financial Penalties Imposed by the Central Bank of Kuwait on the Bank During the Financial Year Ending on 31/12/2012

As per the Central Bank of Kuwait's instructions contained in its circular dated 7/2/2011 and out of the Board of Directors' endeavors to apply Corporate Governance principles and its compliance with disclosure and transparency requirements, a disclosure of the penalties imposed on the Bank by the Central Bank of Kuwait is given below:

- First: Warning Penalty:

On 28/12/2011, the Central Bank imposed one warning penalty due to detection of 2 forged banknotes within the currency noted deposited by the Bank.

- Second: Financial Penalties:

The Central Bank of Kuwait imposed 7 financial penalties totaling KD 193,000 as follows:

1. (3) financial penalties totaling KD 40,000 due to detection of 4 forged banknotes within the currency notes deposited by the Bank on 9/4, 22/4, 22/5 & 3/7/2012 respectively.
2. One financial penalty of KD 20,000 on the back of the Bank's acceptance of deposits from certain customers under Islamic modes.
3. One financial penalty of KD 50,000 due to violation of the Central Bank of Kuwait's instructions on AML & CTF on the back of the Bank's not obtaining some information on its customers and not updating data and information related to others in addition to not taking the necessary action towards some customers who failed to update their information and data.
4. One financial penalty of KD 3,000 on the back of the bank's non-compliance with the submission deadline of regular statements for April 2012.
5. One financial penalty of KD 80,000 on the back of the bank's violation of the Central Bank of Kuwait's instructions on organization the credit policy at banks, classification of credit facilities, banking risks system and maximum credit concentration limits.

FINANCIAL REVIEW

2012 STATEMENT OF INCOME

The profit attributable to shareholders of the Parent Bank for the year is KD 1.119 million.

Net interest income of KD 85.6 million was KD 6.0 million or 6.6% lower than 2011. The average yield on interest earning assets declined to 3.47% from 3.99% in 2011. The average cost on interest bearing liabilities fell to 0.91% down from the 1.30% of 2011. The Bank's net spread was 2.56% and the net interest margin was 2.61%.

Fees and commissions increased by KD 0.013 million or 0.05%. Dividend income of KD 2.628 million was down 17.46% on 2011.

Staff expenses decreased KD 0.5 million or 3.25% on 2011. General and administration expenses for 2012 were up by KD 1.3 million or 10.8% on 2011.

The charge for Impairment and other provisions for credit facilities and investments was KD 92.6 million for 2012, a decrease compared to the KD 100.4 million of 2011.

The Bank continues to enforce a strict credit policy and complies fully with the Central Bank of Kuwait provisioning requirements. Total provision cover for 2012, including general provisions, was 170.1% of non-performing loans. Non-performing loans decreased by KD 92.8 million to KD 61.2 million.

2012 BALANCE SHEET

Total assets decreased by KD 46.2 million or 1.2% on 2011 with a decrease in Loans and advances and Treasury and Central Bank bonds.

The capital adequacy ratio under Basel II regulations is 19.95% and comfortably exceeds the minimum 12% requirement of the Central Bank of Kuwait.

Dividends and Proposed Appropriations

The Net profit for the year attributable to shareholders of the Parent Bank of KD 1.119 million will be retained.

1. No dividend is proposed (2011: Nil) as recommended by the Board of Directors. This is subject to approval by the Shareholders at the Annual General Meeting.

2. Nil to the Statutory Reserve, which now equals 50% of share capital and in accordance with the Law of Commercial Companies any future transfers are on a voluntary basis.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS
OF COMMERCIAL BANK OF KUWAIT S.A.K

Introduction

We have audited the accompanying consolidated financial statements of Commercial Bank of Kuwait S.A.K ('the Parent Bank') and subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2012 and the related consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these consolidated financial statement in accordance with International Financial Reporting Standards 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 statement that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidates financial statement in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with international Financial reporting Standards as adopted for use by the State of Kuwait.

Report and other legal and regulatory requirements

Furthermore, in our opinion proper books of accounts have been kept by the Parent Bank and the consolidated financial statement, together with the content of the report of the Board of Directors relating to these consolidates financial statement, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit that the consolidates financial statement incorporate all information that is required by the Capital adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular no. 2/BS/184//2005 dated 21 December 2005; Companies law no. 25 of 2012; and by the Parent Bank's Article of Association ; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violation of capital adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular no. 2/BS/184/2005 dated 21 December 2005, Companies Law no. 25 of 2012, or of the Articles of association have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended 31 December 2012.

Yours Sincerely

Jassim Ahmad Al-Fahad
License No 53A
Deloitte & Touche

Dr. Shuaib A. Shuaib
License No 33A
RSM Albazie & Co

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Note	2012 KD 000's	2011 KD 000's
ASSETS			
Cash and short term funds	3	**253,765**	198,470
Treasury and Central Bank bonds	4	**444,195**	484,036
Due from banks and other financial institutions	5	**373,033**	405,989
Loans and advances	6	**2,127,733**	2,161,007
Investment securities	7	**395,123**	394,100
Investment in an associate	8	**3,228**	9,691
Premises and equipment		**25,768**	26,152
Goodwill and other intangible assets	9	**9,940**	18,226
Other assets	10	**35,311**	16,621
TOTAL ASSETS		**3,668,096**	3,714,292
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**817,294**	886,520
Customer deposits	12	**2,257,288**	2,253,965
Other liabilities	13	**40,492**	42,418
TOTAL LIABILITIES		**3,115,074**	3,182,903
EQUITY			
Equity attributable to shareholders of the Parent Bank			
Share Capital		**127,202**	127,202
Treasury shares		**(75)**	(75)
Reserves		**309,667**	289,206
Retained earnings		**115,262**	114,143
		552,056	530,476
Non-controlling interests		**966**	913
TOTAL EQUITY	14	**553,022**	531,389
TOTAL LIABILITIES AND EQUITY		**3,668,096**	3,714,292

These consolidated financial statements have been approved for issue by the Board of Directors on 29th January 2013 and signed on their behalf by:

Ali Mousa Al Mousa
Chairman & Managing Director

Nuhad Saliba
Chief Executive Officer

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2012

	Note	2012 KD 000's	2011 KD 000's
Interest income	15	**113,920**	132,168
Interest expense	16	**(28,338)**	(40,564)
NET INTEREST INCOME		**85,582**	91,604
Fees and commissions		**27,984**	27,470
Fund management fees		**198**	699
Net gain from dealing in foreign currencies		**3,896**	5,301
Net gain (loss) from investment securities	17	**1,661**	(175)
Dividend income		**2,628**	3,184
Share of result from an associate	8	**157**	780
Other operating income	18	**1,124**	1,020
OPERATING INCOME		**123,230**	129,883
Staff expenses		**(15,732)**	(16,261)
General and administration expenses		**(13,323)**	(11,600)
Depreciation and amortisation		**(369)**	(753)
OPERATING EXPENSES		**(29,424)**	(28,614)
OPERATING PROFIT BEFORE PROVISIONS		**93,806**	101,269
Impairment and other provisions	19	**(92,640)**	(100,407)
PROFIT BEFORE TAXATION		**1,166**	862
Taxation	20	**(13)**	(9)
NET PROFIT FOR THE YEAR		**1,153**	853
Attributable to:			
Shareholders of the Parent Bank		**1,119**	810
Non-controlling interests		**34**	43
		1,153	853
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	21	**0.9**	0.6

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2012

	2012	2011
	KD 000's	KD 000's
Net profit for the year	**1,153**	853
OTHER COMPREHENSIVE INCOME		
Changes in fair value of investment securities	**22,644**	61,123
Net gain on disposal / impairment of investment securities	**400**	1,147
Property revaluation gain	**827**	1,368
Share of other comprehensive loss of an associate	**(3,391)**	(13)
	20,480	63,625
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**21,633**	64,478
Attributable to:		
Shareholders of the Parent Bank	**21,580**	64,537
Non-controlling interests	**53**	(59)
	21,633	64,478

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2012

	KD 000's													
	Attributable to shareholders of the Parent Bank													
				Reserves										
	Share capital	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 Intersts	Total
Balance as at 1 January 2011	127,202	(75)	66,791	63,601	17,927	45,603	20,804	10,753	225,479	113,333	19,079	485,018	1,032	486,050
Total comprehensive income for the year	-	-	-	-	-	-	1,368	62,359	63,727	810	-	64,537	(59)	64,478
Dividend paid	-	-	-	-	-	-	-	-	-	-	(19,079)	(19,079)	(60)	(19,139)
Balance as at 31 December 2011	**127,202**	**(75)**	**66,791**	**63,601**	**17,927**	**45,603**	**22,172**	**73,112**	**289,206**	**114,143**	**-**	**530,476**	**913**	**531,389**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**827**	**19,634**	**20,461**	**1,119**	**-**	**21,580**	**53**	**21,633**
Balance as at 31 December 2012	**127,202**	**(75)**	**66,791**	**63,601**	**17,927**	**45,603**	**22,999**	**92,746**	**309,667**	**115,262**	**-**	**552,056**	**966**	**553,022**

Investment valuation reserve includes a loss of KD 3,334 thousand (31 December 2011: gain of KD 76 thousand) arising from foreign currency translation of the Parent Bank's investment in its associate.

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	2012 KD 000's	2011 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		**1,166**	862
Adjustments for:			
Impairment and other provisions	19	**92,640**	100,407
Income from investment securities		**(4,289)**	(3,009)
Foreign exchange gain on investment securities		**758**	(1,013)
Depreciation and amortisation		**369**	753
Share of results from an associate	8	**(157)**	(780)
Profit before changes in operating assets and liabilities		**90,487**	97,220
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		**39,841**	16,548
Due from banks and other financial institutions		**32,956**	(183,307)
Loans and advances		**(25,225)**	82,297
Other assets		**(17,070)**	(4,360)
Due to banks and other financial institutions		**(69,226)**	80,188
Customer deposits		**3,323**	(18,613)
Other liabilities		**(3,870)**	(3,104)
Net cash from operating activities		**51,216**	66,869
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		**67,059**	57,254
Acquisition of investment securities		**(64,881)**	(117,310)
Dividend income from investment securities		**2,628**	3,184
Proceeds from disposal of premises and equipment		**59**	2
Acquisition of premises and equipment		**(786)**	(743)
Net cash from (used in) investing activities		**4,079**	(57,613)
FINANCING ACTIVITIES			
Dividend paid		**-**	(19,079)
Dividend paid to non-controlling interest		**-**	(60)
Net cash used in financing activities		**-**	(19,139)
Net increase (decrease) in cash and short term funds		**55,295**	(9,883)
Cash and short term funds as at 1 January		**198,470**	208,353
Cash and short term funds as at 31 December	3	**253,765**	198,470

The attached notes 1 to 29 form part of these consolidated financial statements.

1. INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait S.A.K (the "Parent 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 listed on the Kuwait Stock Exchange (KSE). The address of the registered office of the Parent Bank is P.O. Box 2861, 13029 Safat, State of Kuwait.

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

The principal activities of the Group are explained in note 27.

On 29 November 2012, Companies Law No. 25 of 2012 (the Law) was published in the official gazette to supersede Law No. 15 of 1960 – the Law of Commercial Companies. Companies in Kuwait have been granted six months to comply with the Law's requirements as may be specified in the Executive Regulations. The Bank is taking necessary actions to ensure compliance within the specified timeframe.

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 IFRS 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 presentation currency.

These consolidated financial statements are subject to the approval of the shareholders at the Annual General Assembly.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following amendments to IASB Standards issued and effective during the year:

(i) IFRS 7: Financial Instruments: Disclosures: Enhanced Derecognition Disclosure Requirements (effective 1 July 2011)

(ii) IAS 12: Income Taxes: Recovery of Underlying Assets (effective 1 January 2012)

The major changes in the amended standards are as follows:

i) IFRS 7: Financial Instruments Disclosures: Enhanced Derecognition Disclosure Requirements:

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with such involvement. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

ii) IAS 12: Income Taxes: Recovery of Underlying Assets:

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment has no effect on the consolidated financial position, performance or disclosures of the Group.

The application of other IASB Standards and amendments did not have a material impact on the consolidated financial statements of the Group.

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

i) IFRS 7: Amendments to Financial Instruments Disclosures: (effective 1 January 2013)
ii) IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2015)
iii) IFRS 10: Consolidated Financial Statements (effective 1 January 2013)
iv) IFRS 12: Disclosure of Interests in Other Entities (effective 1 January 2013)
v) IFRS 13: Fair Value Measurement (effective 1 January 2013)
vi) IAS 1: Amendment to Presentation of Financial Statements (effective 1 July 2012)
vii) IAS 19: Revision to Employee Benefits (effective 1 January 2013)
viii) IAS 28: Revision to Investments in Associates and Joint Ventures (effective 1 January 2013)
ix) IAS 32: Amendments to Financial Instruments Presentation (effective 1 January 2014)

The major changes in the new and amended standards are as follows:

i) IFRS 7: Financial Instruments Disclosures:

The amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment affects disclosure only and has no impact on the consolidated financial position or performance of the Group.

ii) **IFRS 9: Financial Instruments:**
The Standard becomes effective for annual periods beginning on or after 1 January 2015. The Standard improves the ability of the users of the financial statement to assess the amount, timing and uncertainty of future cash flows of the entity by replacing many financial instrument classification categories, measurement and associated impairment methods. The application of the Standard will result in amendments and additional disclosures relating to financial instruments and associated risks.

iii) **IFRS 10: Consolidated Financial Statements:**
The Standard replaces the consolidation guidance in IAS 27: Consolidated and Separate Financial Statements and SIC 12: Consolidation of Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. This Standard becomes effective for annual periods beginning on or after 1 January 2013.

iv) **IFRS 12: Disclosure of Interests in Other Entities:**
The Standard requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is provide information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. This Standard becomes effective for annual periods beginning on or after 1 January 2013.

v) **IFRS 13: Fair Value Measurement:**
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Standard becomes effective for annual periods beginning on or after 1 January 2013.

vi) **IAS 1: Presentation of Financial Statements:**
The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately

from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the consolidated financial position or performance of Group. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

vii) IAS 19: Employee Benefits:
Amended Standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended Standard. Among these numerous amendments, the most important changes are making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. These amendments are not expected to impact the consolidated financial position or performance of the Group.

viii)IAS 28: Investments in Associates and Joint Ventures:
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures. The Standard describes the application of the equity method to investments in joint ventures in addition to associates. The revised Standard becomes effective for annual periods beginning on or after 1 January 2013.

ix) IAS 32: Amendments to Financial Instruments Presentation:
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the consolidated financial position or performance of the Group and become effective for annual periods beginning on or after 1 January 2014.

Adoption of other IASB Standards will not have material effect on the consolidated financial position or performance of the Group. Additional disclosures will be made in the consolidated financial statements when these Standards become effective.

(b) Basis of consolidation
The financial statements of the subsidiaries used to prepare the consolidated financial statements of the Group are prepared as at the Parent Bank's reporting date.

i) Subsidiaries
Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. 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 Parent 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.

ii) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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; 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 retaining investment and proceeds from disposal is recognised in consolidated statement of income.

(c) Business Combinations

A business combination is the bringing together of separate entities or businesses into one. The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured as the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the consolidated statement of income as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized initially at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5. Non-current assets held for sale and discontinued operations are recognized and measured at lower of carrying amount or fair value less costs to sell.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain / loss is included in the consolidated statement of income.

The non-controlling interests in the acquiree are initially measured either at the fair value or at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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

(d) 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.

(e) Financial instruments

i) Classification and measurement

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

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 of or impaired, any prior fair value adjustments earlier reported in the consolidated statement of comprehensive income are transferred to the consolidated statement of income.

ii) 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.

iii) 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.

iv) 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 hedge 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.

v) 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.

vi) 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.

vii) Offsetting financial instruments

Financial assets and liabilities are offset and 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.

viii) Collateral Pending Sale

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

ix) Fair values

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, 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.

x) 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.

xi) 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 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. debit balance in the current account has been constantly showing an excess of 10% of the borrower's overdraft limit;

B. 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 recovered 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.

(f) 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 decrease in the carrying amount of an asset as a result of revaluation is recognized as an expense in the consolidated statement of income. However, 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. 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.

(g) 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.

(h) Goodwill and other intangible assets

Goodwill arising in a business combination is recognised as of the acquisition date as the excess of:

i) the aggregate of the consideration transferred, the fair value of any non-controlling interests in the acquiree measured at the non controlling interest's proportionate share of the acquiree's identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over

ii) the net of the acquisition-date amounts of the identifiable acquired assets, liabilities and contingent liabilities are measured at their fair values.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses.

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.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(i) Treasury shares

The Parent Bank's holding in its own shares is stated at acquisition cost. These shares are not entitled to any cash dividend that the Parent Bank may propose.

Gains or losses arising on sale are separately disclosed under treasury shares reserve in equity in accordance with the instructions of the CBK. These amounts are not available for distribution, during such period the shares are held by the Parent Bank.

(j) 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 is generally recognised on an accrual basis, when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred together with related direct costs, and recognised as an adjustment to the effective interest rate on the loan. 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.

(k) 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 case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, 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.

(l) Termination pay

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

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

(m) 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.

(n) Fiduciary assets

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

(o) Significant accounting judgments and estimates

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

Judgments

Classification of investments

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

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

Impairment of investments:

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

Estimates

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

Impairment losses on loans and advances and investment in debt instruments:

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

Valuation of unquoted equity investments:

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

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

Impairment of goodwill and other intangible assets:
The Group determines whether goodwill and intangible assets is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated. 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

	2012	2011
	KD 000's	KD 000's
Cash and cash items	**64,341**	45,512
Balances with the CBK	**76,563**	6,412
Deposits with banks maturing within seven days	**112,861**	146,546
	253,765	198,470

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

4. TREASURY AND CENTRAL BANK BONDS

	2012	2011
	KD 000's	KD 000's
Treasury bonds	**189,489**	245,344
Central Bank bonds	**254,706**	238,692
	444,195	484,036

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.

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	2012	2011
	KD 000's	KD 000's
Placements with banks	**343,458**	398,499
Loans and advances to banks	**1,374**	1,327
Amounts due from other financial institutions	**28,201**	6,163
	373,033	405,989

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:

	KD 000's					
As at 31 December 2012	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
Trade and commerce	**264,324**	**222**	**-**	**-**	**-**	**264,546**
Construction and real estate	**725,070**	**-**	**-**	**-**	**-**	**725,070**
Other financial institutions	**191,229**	**-**	**-**	**-**	**-**	**191,229**
Retail customers	**436,430**	**-**	**-**	**-**	**-**	**436,430**
Others	**613,748**	**641**	**-**	**-**	**131**	**614,520**
	2,230,801	**863**	**-**	**-**	**131**	**2,231,795**
Less: Provision for impairment						**(104,062)**
						2,127,733

	KD 000's					
As at 31 December 2011	Kuwait	Asia	Europe	USA	Others	Total
Trade and commerce	227,189	5,289	-	-	-	232,478
Construction and real estate	683,205	-	1	-	-	683,206
Other financial institutions	211,328	-	-	-	-	211,328
Retail customers	403,181	-	-	-	-	403,181
Others	772,322	101	-	-	-	772,423
	2,297,225	5,390	1	-	-	2,302,616
Less: Provision for impairment						(141,609)
						2,161,007

(b) Movement in provisions for loans and advances

	2012 KD 000's			2011 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**46,798**	**94,629**	**141,427**	156,636	73,538	230,174
Written-off	**(107,782)**	**-**	**(107,782)**	(198,115)	-	(198,115)
Exchange differences	**(106)**	**-**	**(106)**	(586)	-	(586)
Recoveries	**11,887**	**-**	**11,887**	4,913	-	4,913
Ceded to Central Bank	**(13)**	**-**	**(13)**	(9)	-	(9)
Charged / (released) to consolidated statement of income	**64,565**	**(6,066)**	**58,499**	83,959	21,091	105,050
Provisions 31 December	**15,349**	**88,563**	**103,912**	46,798	94,629	141,427

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 103,912 thousand (2011: KD 141,427 thousand) also includes an additional provision amounting to KD 60,926 thousand (2011: KD 66,973 thousand) which is over and above the CBK's minimum general provision requirements. The Group has also suspended interest amounting to KD 150 thousand (2011: KD 182 thousand) on impaired loans. The available provision for non-cash credit facilities of KD 5,751 thousand (2011: KD 5,595 thousand) is included in other liabilities.

(c) Non-performing loans

	2012 KD 000's	2011 KD 000's
Loans and advances	**61,613**	154,004
Collaterals	**48,876**	82,789
Available provisions	**9,077**	46,980

7. INVESTMENT SECURITIES

	2012 KD 000's	2011 KD 000's
At fair value through statement of income		
Equity securities - quoted	**-**	4
Available for sale		
Debt securities - quoted	**14,894**	34,949
Debt securities - unquoted	**40,743**	21,448
Equity securities -quoted	**299,271**	279,921
Equity securities -unquoted	**36,720**	46,711
Others	**3,495**	11,067
	395,123	394,100

During the year, the Group recognised an unrealised gain of KD 22,643 thousand (2011: KD 61,123 thousand) in the consolidated statement of comprehensive income as arising from changes in fair value and re-cycled accumulated fair valuation changes of KD 400 thousand (2011: KD 1,147 thousand) to the consolidated statement of income on disposal of "available for sale" investment securities. Impairment loss of KD 20,758 thousand (2011: KD 7,475 thousand) was also charged to the consolidated statement of income.

Fair value of securities of KD 314,165 thousand (2011: KD 314,874 thousand) are based on observable market information. Fair values of unquoted securities and others amounting to KD 39,374 thousand (2011: KD 43,404 thousand) are based on valuation techniques. The impact on the consolidated statement of financial position or the consolidated statement of changes in equity would be immaterial, if the relevant risk variables used to determine fair values for the unquoted securities were altered by 5%.

It was not possible to reliably measure the fair value of unquoted securities and others amounting to KD 41,584 thousand (2011: KD 35,822 thousand) due to non-availability of a reliable method that could be used to determine the fair value of such investments. Accordingly, they were stated at their cost less impairment losses, if any.

Investment securities include 348,483,589 shares carried at a fair value of KD 223,029 thousand. The Parent Bank acquired 221,421,095 of these shares at a cost of KD 94,103 thousand in the year 2009 under a transaction executed through the KSE where the counterparty subsequently failed to exercise their buy back option within the agreed time frame. During 2010, the Parent Bank participated in the rights issue and acquired 127,062,494 shares at a cost of KD 32,401 thousand. As at the reporting date, the Parent Bank holds the title of the underlying shares. The counterparty raised a legal case challenging the Parent Bank's ownership that is currently pending at the court of law. On the basis of legal counsel, management believes that they have a meritorious defense and accordingly the Parent Bank has fair valued the investment and recognised the resultant fair valuation gain in the Investment Valuation Reserve.

8. INVESTMENT IN AN ASSOCIATE

The Group owns a 32.26% (2011: 32.26%) interest in Al Cham Islamic Bank S.A, a private bank incorporated in the Republic of Syria, engaged in Islamic banking activities.

Summarised financial information of the associate is as follows:

	2012	2011
	KD 000's	KD 000's
Share of associate's statement of financial position:		
Total assets	**24,274**	26,287
Total liabilities	**(17,817)**	(16,596)
Net assets	**6,457**	9,691
Less: Provision for impairment	**(3,229)**	-
	3,228	9,691
Share of associate's net revenues and results:		
Net operating income	**987**	1,664
Results for the year	**157**	780

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	2012	2011
	KD 000's	KD 000's
Goodwill	**-**	1,765
Other intangible assets	**9,940**	16,461
	9,940	18,226

Other intangible assets represent the value of a brokerage license KD 9,809 thousand (2011: KD 16,185 thousand); patents KD nil thousand (2011: KD 14 thousand) and customer relationship KD 131 thousand (2011: KD 262 thousand). The brokerage license is considered to have an indefinite useful life. The patents and customer relationship are amortised over a period of 5 years.

As at 31 December 2012, the carrying value of goodwill and other intangible assets 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 years period and a relevant terminal growth rate of 5%. These cash flows were then discounted using a pre-tax discount rate of 8.5% to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, the Group has recognised impairment loss of KD 8,141 thousand in the consolidated statement of income.

10. OTHER ASSETS

	2012 KD 000's	2011 KD 000's
Accrued interest receivable	**896**	824
Other receivables	**34,415**	15,797
	35,311	16,621

Other assets are classified as "loans and receivables".

Other receivables include assets pending sale amounting to KD 21,046 thousand (2011: KD nil thousand) acquired relating to settlement of loans and advances.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2012 KD 000's	2011 KD 000's
Due to banks:		
Current accounts and demand deposits	**28,571**	63,389
Time deposits	**321,536**	319,328
	350,107	382,717
Deposits from other financial institutions:		
Current accounts and demand deposits	**55,715**	33,398
Time deposits	**411,472**	470,405
	467,187	503,803
	817,294	886,520

12. CUSTOMER DEPOSITS

	2012 KD 000's	2011 KD 000's
Current accounts and demand deposits	**437,013**	375,578
Saving accounts	**475,684**	389,818
Call deposits	**131,290**	21,652
Time deposits	**1,213,301**	1,466,917
	2,257,288	2,253,965

13. OTHER LIABILITIES

	2012	2011
	KD 000's	KD 000's
Accrued interest payable	**6,668**	9,345
Deferred income	**3,684**	4,007
Provision for non-cash facilities & others	**9,811**	8,712
Staff related accruals	**2,141**	1,738
Others	**18,188**	18,616
	40,492	42,418

14. EQUITY

(a) Share capital

The share capital comprises of 1,272,022,346 (2011: 1,272,022,346) authorized, subscribed and fully paid ordinary shares of 100 fils each. For detailed qualitative disclosure on capital management, please refer to note III "Capital adequacy" of the Public Disclosures on Capital Adequacy Standard.

(b) Treasury shares

	2012	2011
Number of treasury shares	**70,000**	70,000
Percentage of treasury shares	**0.01**	0.01
Cost of shares (KD 000's)	**75**	75
Fair value of shares (KD 000's)	**49**	55

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 Parent Bank.

(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 Commercial Companies Law of 1960 and the Parent Bank's Articles of Association, the Parent Bank has resolved not to transfer any amount to statutory reserve as the statutory reserve has reached 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 Parent Bank's Articles of Association and is available for distribution. During the years 2012 and 2011 there were no transfers to general reserve.

(e) Treasury shares reserve
This represents gains or losses arising on the sale of treasury shares held by the Parent Bank and is not available for distribution.

(f) Property revaluation reserve
This represents surplus arising from the revaluation of property.

(g) 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 of or impaired.

(h) Proposed dividend and bonus shares
Annual general meeting of the shareholders' held on 29 April 2012 resolved not to distribute cash dividend for the year 2011 (2010: 15 fils per share).

15. INTEREST INCOME

	2012	2011
	KD 000's	KD 000's
Loans and advances to banks and customers	**99,870**	118,514
Interbank transactions and placements	**5,403**	4,314
Bonds and other investments	**8,647**	9,340
	113,920	132,168

Interest income includes a release of KD 927 thousand (2011: KD 751 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 year 2007 and 2008, as per Central Bank circulars 2/202BS RSA/2007 dated February 13, 2007 and 2/105 dated April 23, 2008.

16. INTEREST EXPENSE

	2012	2011
	KD 000's	KD 000's
Customer deposits	**(18,708)**	(30,153)
Financial institution deposits	**(7,327)**	(8,415)
Interbank transactions and deposits	**(2,303)**	(1,996)
	(28,338)	(40,564)

17. NET GAIN (LOSS) FROM INVESTMENT SECURITIES

	2012	2011
	KD 000's	KD 000's
Realised loss on sale of investments at fair value through statement of income	**-**	(310)
Realised gain on sale of investments classified as available for sale	**1,661**	135
	1,661	(175)

18. OTHER OPERATING INCOME

	2012	2011
	KD 000's	KD 000's
Communication recoveries	**763**	721
Others	**361**	299
	1,124	1,020

19. IMPAIRMENT AND OTHER PROVISIONS

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

	2012	2011
	KD 000's	KD 000's
Loans and advances - specific	**(64,565)**	(83,959)
Loans and advances - general	**6,066**	(21,091)
Investment securities	**(20,758)**	(7,475)
Non cash facilities	**(867)**	11,976
Other provisions	**(12,516)**	142
	(92,640)	(100,407)

Other provisions mainly represent impairment of investment in an associate, goodwill and intangible assets estimated on acquisition of one of the subsidiaries amounting to KD 3,229 thousand and KD 8,141 thousand respectively.

20. TAXATION

	2012 KD 000's	2011 KD 000's
National Labour Support Tax (NLST)	**-**	-
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)	**(11)**	(9)
Zakat	**(2)**	-
	(13)	(9)

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.

21. EARNINGS PER SHARE

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

	2012	2011
Net profit for the year attributable to shareholders of the Parent Bank (KD 000's)	**1,119**	810
Weighted average of authorised and subscribed shares (numbers in 000's)	**1,272,022**	1,272,022
Less: Weighted average of treasury shares held (numbers in 000's)	**(70)**	(70)
	1,271,952	1,271,952
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	**0.9**	0.6

22. SUBSIDIARIES

Name of Entities	Country of incorporation	Principal Business	% of Ownership 2012	% of Ownership 2011
AlTijari Investment Company K.S.C (Closed)	Kuwait	Investment banking	**100%**	100%
Union Securities Brokerage Company K.S.C (Closed)	Kuwait	Brokerage services	**80%**	80%

The extraordinary general assembly of the Company held on 2 October 2012 approved to liquidate the "Al Tijari Investment Company K.S.C (Closed)", taking into account the current challenging and uncertain operating environment. Accordingly, the non-current assets of this subsidiary have been classified as non-current assets held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". As at 31 December 2012, the non-current asset held for sale includes property with a fair value less cost to sell amounting to KD 1,717 thousand, classified under other assets. Net profit of the Group for the year ended 31 December 2012 includes profit from discontinued operations of this subsidiary amounting to KD 46 thousand.

23. 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:

	2012			2011		
	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	**-**	**-**	**-**	-	-	-
Credit cards	**1**	**-**	**1**	1	-	5
Deposits	**7**	**-**	**32**	6	-	116
Executive Management						
Loans	**8**	**-**	**91**	8	-	80
Credit cards	**5**	**3**	**9**	6	5	3
Deposits	**13**	**12**	**734**	12	11	560

The loans issued to directors, key management personnel and related members are repayable within 5 years and have interest rates of 0% (2011: 0% to 1.5%).

Details of compensation for key management including remuneration of the Chairman & Managing Director and the Chief Executive Officer amounting to KD 135 thousand and KD 509 thousand respectively are as follows:

	2012	2011
	KD 000's	KD 000's
Salaries and other short-term benefits	**(1,333)**	(790)
Post employment benefits	**(12)**	(17)
End of service benefits	**(149)**	(78)

The remuneration to the members of the Board of Directors is KD 143 thousand for assignments performed by them related to Board Committees.

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Fair values of interest bearing financial assets and financial liabilities not represented on the Group's consolidated statement of financial position at fair values have been estimated using prevailing interest rates for debts with similar credit risk and residual maturity. The carrying value of such financial instruments generally approximates their fair value.

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

25. 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 Parent 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 IV, "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 IV(a),"Risk management - Credit risk", of the Public Disclosures on Capital Adequacy Standard.

(A) Credit risk concentration

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

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

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

	2012	2011
	KD 000's	KD 000's
Credit exposure relating to on-balance sheet items		
Cash and short term funds	**253,765**	198,470
Treasury and Central Bank bonds	**444,195**	484,036
Due from banks and OFIs	**373,033**	405,989
Loans and advances - Corporate	**1,795,365**	1,899,435
Loans and advances - Retail	**436,430**	403,181
Debt securities	**55,637**	56,397
Other assets	**21,263**	16,621
	3,379,688	3,464,129
Credit exposure relating to off-balance sheet items		
Acceptances	**42,904**	82,826
Letters of credit	**130,518**	194,571
Letters of guarantee	**885,205**	860,491
Others	**37,961**	35,953
	1,096,588	1,173,841
	4,476,276	4,637,970

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 VI "Credit risk mitigation", of the Public Disclosures on Capital Adequacy Standard.

(D) Credit quality of credit exposure

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

	KD 000's					
	Neither past due nor impaired					
	Superior grade	Good grade	Standard grade	Past due but not impaired 0 - 90 days	Impaired	Fair value of collateral
As at 31 December 2012						
Loans and advances - Corporate	**2,405**	**1,088,557**	**405,201**	**248,583**	**50,619**	**48,846**
Loans and advances - Banks	**-**	**-**	**1,374**	**-**	**-**	**-**
Loans and advances - Retail	**-**	**-**	**390,416**	**35,020**	**10,994**	**30**
	2,405	**1,088,557**	**796,991**	**283,603**	**61,613**	**48,876**
As at 31 December 2011						
Loans and advances - Corporate	12,092	1,072,157	662,383	7,251	144,821	83,090
Loans and advances - Banks	-	-	1,327	-	-	-
Loans and advances - Retail	-	-	357,179	37,550	9,183	62
	12,092	1,072,157	1,020,889	44,801	154,004	83,152

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 10 with 1 being the best risk and 10 being bad. The superior, good and standard grades are determined on the following basis:

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

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

	2012 KD 000's		2011 KD 000's	
	Assets	**Off Balance Sheet**	Assets	Off Balance Sheet
Geographic sector				
Kuwait	**3,211,248**	**818,642**	3,143,540	901,458
Asia	**330,584**	**199,601**	327,182	203,501
Europe	**74,531**	**72,253**	197,117	66,603
USA	**1,854**	**4,498**	2,075	151
Others	**123**	**1,594**	-	2,128
	3,618,340	**1,096,588**	3,669,914	1,173,841
Industry sector				
Government	**444,196**	**-**	484,035	-
Trade and commerce	**253,060**	**211,155**	218,132	158,290
Construction and real estate	**702,857**	**576,788**	670,412	504,940
Banks and financial institutions	**1,209,924**	**240,566**	1,187,798	229,595
Others	**1,008,303**	**68,079**	1,109,537	281,016
	3,618,340	**1,096,588**	3,669,914	1,173,841

(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				
	Fair value	Up to 1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Total
As at 31 December 2012						
Foreign exchange contracts - forward	**1,221**	**243,689**	**87,855**	**16,358**	**-**	**347,902**
	1,221	**243,689**	**87,855**	**16,358**	**-**	**347,902**
As at 31 December 2011						
Foreign exchange contracts - forward	5,343	299,170	103,929	-	-	402,199
Option	237	-	3,281	-	-	3,281
	5,580	299,170	106,310	-	-	405,480

(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 IV(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 IV(d),"Risk management - Interest rate risk", of the Public Disclosures on Capital Adequacy Standard.

The Group's interest sensitivity position and the range of effective rate of interest on its interest bearing financial assets and liabilities are as follows:

	KD 000's						%
As at 31 December 2012	**Up to 1 Month**	**1 to 3 Months**	**3 to 12 Months**	**Over 1 Year**	**Non - interest sensitive**	**Total**	**Effective rate of interest**
ASSETS							
Cash and short term funds	**201,390**	**-**	**-**	**-**	**52,375**	**253,765**	**0 - 2**
Treasury and Central Bank bonds	**67,956**	**191,584**	**184,655**	**-**	**-**	**444,195**	**1 - 2**
Due from banks and OFIs	**135,664**	**196,588**	**39,406**	**-**	**1,375**	**373,033**	**1 - 2**
Loans and advances	**1,688,127**	**13,739**	**38,519**	**367,027**	**20,321**	**2,127,733**	**1 - 5**
Investment securities	**16,553**	**12,459**	**14,643**	**15,911**	**335,557**	**395,123**	**1 - 9**
Investment in an associate	**-**	**-**	**-**	**-**	**3,228**	**3,228**	**-**
Other assets	**2,458**	**512**	**76**	**-**	**18,217**	**21,263**	**-**
	2,112,148	**414,882**	**277,299**	**382,938**	**431,073**	**3,618,340**	
LIABILITIES							
Due to banks and OFIs	**382,242**	**144,676**	**190,689**	**54,535**	**45,152**	**817,294**	**1 - 3**
Customer deposits	**977,443**	**445,063**	**367,798**	**29,969**	**437,015**	**2,257,288**	**0 - 3**
Other liabilities	**1,022**	**547**	**1,083**	**-**	**37,840**	**40,492**	**-**
	1,360,707	**590,286**	**559,570**	**84,504**	**520,007**	**3,115,074**	
Total interest rate sensitivity gap	**751,441**	**(175,404)**	**(282,271)**	**298,434**			

As at 31 December 2011	Up to 1 Month (KD 000's)	1 to 3 Months (KD 000's)	3 to 12 Months (KD 000's)	Over 1 Year (KD 000's)	Non - interest sensitive (KD 000's)	Total (KD 000's)	Effective rate of interest (%)
ASSETS							
Cash and short term funds	171,040	-	-	-	27,430	198,470	0 - 2
Treasury and Central Bank bonds	97,838	177,557	208,641	-	-	484,036	1 - 2
Due from banks and OFIs	200,261	179,652	22,624	2,125	1,327	405,989	1 - 4
Loans and advances	1,806,628	39,104	22,020	284,767	8,488	2,161,007	1 - 6
Investment securities	12,164	9,101	9,281	25,934	337,620	394,100	1 - 6
Investment in an associate	-	-	-	-	9,691	9,691	-
Other assets	1,010	299	62	6	15,244	16,621	-
	2,288,941	405,713	262,628	312,832	399,800	3,669,914	
LIABILITIES							
Due to banks and OFIs	373,945	95,070	341,110	44,075	32,320	886,520	1 - 3
Customer deposits	887,321	434,290	553,960	2,817	375,577	2,253,965	0 - 3
Other liabilities	2,051	426	544	-	39,397	42,418	-
	1,263,317	529,786	895,614	46,892	447,294	3,182,903	
Total interest rate sensitive gap	1,025,624	(124,073)	(632,986)	265,940			

Over a period of one year, the impact on the consolidated statement of income based on the repricing gap is as follows:

	2012 Impact on statement of income (KD 000's)		2011 Impact on statement of income (KD 000's)	
	±@1%	**±@2%**	±@1%	±@2%
Kuwaiti dinar	**6,482**	**12,964**	8,282	16,563
US dollar	**(1,496)**	**(2,992)**	(813)	(1,625)
Other currencies	**1,005**	**2,010**	163	326
	±5,991	**±11,982**	±7,632	±15,264

(B) Currency risk

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

The Group had the following significant net exposures denominated in foreign currencies are as follows :

	2012	2011
	KD 000's	KD 000's
Net assets (liabilities)		
US Dollar	**3,687**	719
Euro	**283**	(2,979)
Saudi Riyal	**438**	200
Swiss Franc	**(24)**	32
UAE Dirham	**312**	448
Sterling Pound	**(393)**	214
Japanese Yen	**1**	56
Others - assets	**773**	946
Others - liabilities	**(3)**	(18)
	5,074	(382)

The table below summarises the Group's exposure to foreign currency exchange rate risk. Included in the table are the Group's on and off balance sheet financial instruments at carrying amounts, categorised by currency.

As at 31 December 2012	KD 000's			
	Kuwaiti dinar	**US dollar**	**Other currencies**	**Total**
ASSETS				
Cash and short term funds	**149,486**	**36,970**	**67,309**	**253,765**
Treasury and Central Bank bonds	**444,195**	**-**	**-**	**444,195**
Due from banks and OFIs	**17,000**	**193,186**	**162,847**	**373,033**
Loans and advances	**2,036,762**	**81,098**	**9,873**	**2,127,733**
Investment securities	**345,521**	**35,332**	**14,270**	**395,123**
Investment in an associate	**-**	**3,228**	**-**	**3,228**
Other assets	**18,629**	**2,265**	**369**	**21,263**
	3,011,593	**352,079**	**254,668**	**3,618,340**
LIABILITIES				
Due to banks and OFIs	**569,635**	**180,172**	**67,487**	**817,294**
Customer deposits	**1,893,373**	**276,808**	**87,107**	**2,257,288**
Other liabilities	**28,487**	**3,828**	**8,177**	**40,492**
	2,491,495	**460,808**	**162,771**	**3,115,074**
Net on balance sheet financial position	**520,098**	**(108,729)**	**91,897**	**503,266**
Contingent liabilities	**830,828**	**200,862**	**64,898**	**1,096,588**

As at 31 December 2012	KD 000's			
	Kuwaiti dinar	US dollar	Other currencies	Total
ASSETS				
Cash and short term funds	95,261	35,106	68,103	198,470
Treasury and Central Bank bonds	484,036	-	-	484,036
Due from banks and OFIs	123,488	85,807	196,694	405,989
Loans and advances	2,062,492	71,572	26,943	2,161,007
Investment securities	330,133	48,293	15,674	394,100
Investment in an associate	-	9,691	-	9,691
Other assets	10,089	2,478	4,054	16,621
	3,105,499	252,947	311,468	3,669,914
LIABILITIES				
Due to banks and OFIs	640,054	116,707	129,759	886,520
Customer deposits	1,933,856	194,930	125,179	2,253,965
Other liabilities	36,668	5,464	286	42,418
	2,610,578	317,101	255,224	3,182,903
Net on balance sheet financial position	494,921	(64,154)	56,244	487,011
Contingent liabilities	816,144	284,115	73,582	1,173,841

The effect on consolidated statement of income and consolidated statement of changes in equity, as a result of strengthening in currency rate, with all other variables held constant is shown below:

	KD 000's			
	Impact on statement of income		Impact on equity	
	@1%	**@2%**	**@1%**	**@2%**
As at 31 December 2012				
US Dollar	**37**	**74**	**319**	**638**
Euro	**3**	**6**	**20**	**40**
Saudi Riyal	**4**	**8**	**-**	**-**
UAE Dirham	**3**	**6**	**4**	**8**
Qatari Riyal	**3**	**6**	**-**	**-**
Others	**-**	**-**	**94**	**188**
	50	**100**	**437**	**874**
As at 31 December 2011				
US Dollar	7	14	476	952
Euro	(30)	(60)	6	12
Saudi Riyal	2	4	-	-
UAE Dirham	4	8	-	-
Qatari Riyal	4	8	-	-
Others	9	18	149	298
	(4)	(8)	631	1,262

(C) Equity price risk

Equity price risk is the risk that the fair value of equities decrease as the 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 IV(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			
	Impact on statement of income		Impact on equity	
	@1%	**@2%**	**@1%**	**@2%**
As at 31 December 2012				
Kuwait Stock Exchange	**-**	**-**	**2,986**	**5,972**
As at 31 December 2011				
Kuwait Stock Exchange	-	-	**2,**791	5,582

(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 IV(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 2012	**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	**253,611**	**154**	**-**	**-**	**-**	**253,765**
Treasury and Central Bank bonds	**443,696**	**262**	**237**	**-**	**-**	**444,195**
Due from banks and OFIs	**135,664**	**196,588**	**39,412**	**-**	**1,369**	**373,033**
Loans and advances	**227,268**	**503,996**	**294,212**	**246,270**	**855,987**	**2,127,733**
Investment securities	**322,811**	**130**	**481**	**18,695**	**53,006**	**395,123**
Investment in associate	**-**	**-**	**-**	**-**	**3,228**	**3,228**
Premises and equipment	**-**	**-**	**-**	**-**	**25,768**	**25,768**
Goodwill and intangible assets	**-**	**-**	**-**	**-**	**9,940**	**9,940**
Other assets	**10,792**	**512**	**70**	**5**	**23,932**	**35,311**
	1,393,842	**701,642**	**334,412**	**264,970**	**973,230**	**3,668,096**
LIABILITIES						
Due to banks and OFIs	**401,047**	**144,676**	**93,661**	**123,375**	**54,535**	**817,294**
Customer deposits	**1,359,193**	**482,171**	**301,475**	**84,681**	**29,768**	**2,257,288**
Other liabilities	**20,781**	**2,240**	**1,843**	**640**	**14,988**	**40,492**
	1,781,021	**629,087**	**396,979**	**208,696**	**99,291**	**3,115,074**
Net liquidity gap	**(387,179)**	**72,555**	**(62,567)**	**56,274**	**873,939**	**553,022**

	KD 000's					
As at 31 December 2011	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	198,468	1	1	-	-	198.470
Treasury and Central Bank bonds	483,258	535	243	-	-	484.036
Due from banks and OFIs	202,387	179,657	22,623	-	1.322	405.989
Loans and advances	406,526	553,137	179,990	251,188	770,166	2,161,007
Investment securities	322,320	438	85	13,400	57,857	394,100
Investment in associate	-	-	-	-	9,691	9,691
Premises and equipment	-	-	-	-	26,152	26,152
Goodwill and intangible assets	-	-	-	-	18,226	18,226
Other assets	15,160	304	62	-	1.095	16.621
	1,628,119	734,072	203,004	264,588	884,509	3,714,292
LIABILITIES						
Due to banks and OFIs	388,368	97,891	150,901	203,170	46,190	886,520
Customer deposits	1,280,795	431,469	270,638	270,360	703	2,253,965
Other liabilities	21,031	1,643	2,773	2,136	14,835	42,418
	1,690,194	531,003	424,312	475,666	61,728	3,182,903
Net liquidity gap	(62,075)	203,069	(221,308)	(211,078)	822,781	531,389

(B) Contractual expiry by maturity

	KD 000's					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
As at 31 December 2012						
Contingent Liabilities	**194,796**	**281,364**	**151,925**	**205,169**	**263,334**	**1,096,588**
As at 31 December 2011						
Contingent Liabilities	207,657	261,920	203,745	231,502	269,017	1,173,841

(C) Contractual undiscounted repayment obligations by maturity.

	KD 000's					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
As at 31 December 2012						
UNDISCOUNTED LIABILITIES						
Due to banks and OFIs	**401,108**	**144,936**	**93,950**	**124,572**	**55,842**	**820,408**
Customer deposits	**1,359,248**	**482,646**	**302,149**	**85,337**	**30,290**	**2,259,670**
Other liabilities	**20,781**	**2,240**	**1,843**	**640**	**14,988**	**40,492**
	1,781,137	**629,822**	**397,942**	**210,549**	**101,120**	**3,120,570**
As at 31 December 2011						
UNDISCOUNTED LIABILITIES						
Due to banks and OFIs	388,441	98,108	151,921	205,827	46,917	891,214
Customer deposits	1,281,035	432,483	271,877	273,243	810	2,259,448
Other liabilities	21,031	1,643	2,773	2,136	14,835	42,418
	1,690,507	532,234	426,571	481,206	62,562	3,193,080

26. 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 IV(e),"Risk management - Operational risk", of the Public Disclosures on Capital Adequacy Standard.

27. 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, asset management 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	
	2012	2011	**2012**	2011	**2012**	2011
Net interest income	**77,337**	86,542	**8,245**	5,062	**85,582**	91,604
Non interest income	**28,343**	27,826	**9,305**	10,453	**37,648**	38,279
Operating income	**105,680**	114,368	**17,550**	15,515	**123,230**	129,883
Impairment and other provisions	**(59,172)**	(93,115)	**(33,468)**	(7,292)	**(92,640)**	(100,407)
Net profit / (loss) for the year	**30,255**	4,548	**(29,102)**	(3,695)	**1,153**	853
Total Assets	**2,183,781**	2,207,391	**1,484,315**	1,506,901	**3,668,096**	3,714,292
Total Liabilities and Equity	**1,457,295**	1,279,133	**2,210,801**	2,435,159	**3,668,096**	3,714,292
Investment in an associate	**-**	-	**3,228**	9,691	**3,228**	9,691

28. 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) Fiduciary assets

The Group manages investment and money market funds as investment manager and trustee, the net asset value of which as at 31 December 2012 is KD 3,146 thousand (2011: KD 37,280 thousand).

(c) Legal claims

At the date of consolidated statement of financial position certain legal claims existed against the Group and for which KD 2,620 thousand (2011: KD 1,676 thousand) has been provided.

29. CAPITAL ADEQUACY

The disclosures relating to Capital Adequacy Regulations issued by CBK as stipulated in circular number 2/BS/184/2005 dated 21 December 2005 are included under the "Public Disclosures on Capital Adequacy Standard" section of the annual report.

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 II issued through Circular No. 2/BS/184/2005 on December 21, 2005. The purpose of these disclosures is to complement the above capital adequacy requirements and the supervisory review process. 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 S.A.K (the "Parent Bank") has two subsidiaries, Union Securities Brokerage Company K.S.C. (Closed) - (80% owned) engaged in brokerage services and Al Tijari Investment Company K.S.C. (Closed) - (100% owned) engaged in investment banking activities 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 extraordinary general assembly of the Company held on 2 October 2012 approved to liquidate the subsidiary "Al Tijari Investment Company K.S.C (Closed)", taking into account the current challenging and uncertain operating environment.

The Parent Bank and its subsidiaries are collectively referred to as "the Group".

The aggregate amount of total interest in an insurance entity, which is credit risk weighted:

	2012			2011		
Name	**Country**	**Ownership%**	**KD 000's**	Country	Ownership%	KD 000's
Al Safat Takaful Insurance Co.	-	-	-	Kuwait	10.00%	190

The capital ratio was 18.58% for the year ended 31 December 2011 as against 18.58% if the investment in an insurance entity was taken as "deduction from capital base" rather than as "risk weighted exposure".

ii) Capital structure

Share Capital – Share capital comprises of 1,272,022,346 (2011: 1,272,022,346) authorised, subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2012, the Parent Bank held 70,000 (.01%) (2011: 70,000 (.01%)) of its own shares.

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

	2012 KD 000's	2011 KD 000's
a.Tier 1 capital :		
1. Paid-up share capital	**127,202**	127,202
2. Proposed bonus shares	**-**	-
3. Share premium	**66,791**	66,791
4. Statutory reserve	**63,601**	63,601
5. General reserve	**17,927**	17,927
6. Retained earnings	**115,262**	114,143
7. Treasury share reserve	**45,603**	45,603
8. Minority interests in consolidated subsidiaries	**966**	913
9. Goodwill	**-**	(1,765)
10. Significant minority investments in banking entities	**(3,228)**	(9,691)
11. Surplus capital from insurance companies	**-**	-
12. Treasury shares	**(75)**	(75)
Total tier 1 capital	**434,049**	424,649
b.Tier 2 capital.		
1. Asset revaluation reserve (45% only)	**10,350**	9,977
2. Fair value reserve (45% only with the concurrence of external auditors)	**41,736**	32,900
3. General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	**31,199**	32,575
Total tier 2 capital	**83,285**	75,452
Total eligible capital	**517,334**	500,101

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

	2012 KD 000's			2011 KD 000's		
	Gross exposures	**Net risk weighted assets**	**Capital requirement Gross exposures**	Gross exposures	Net risk weighted assets	Capital requirement Gross exposures
a. Credit risk						
1. Cash items	**52,379**	**-**	**-**	27,585	-	-
2. Claims on sovereigns	**520,754**	**-**	**-**	495,518	-	-
3. Claims on international organisations	**-**	**-**	**-**	-	-	-
4. Claims on PSEs	**-**	**-**	**-**	-	-	-
5. Claims on MDBs	**-**	**-**	**-**	-	-	-
6. Claims on banks	**746,838**	**206,574**	**24,789**	811,354	267,144	32,057
7. Claims on corporates	**1,462,303**	**836,477**	**100,377**	1,572,323	832,064	98,768
8. Claims on securitised assets	**-**	**-**	**-**	-	-	-
9. Regulatory retail	**451,106**	**432,724**	**51,927**	418,168	399,530	47,944
10. RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11. Past due exposure	**107,974**	**49,274**	**5,913**	107,436	57,825	6,939
12. Other assets	**1,445,021**	**909,588**	**109,151**	1,488,280	992,701	119,124
Total	**4,786,375**	**2,434,637**	**292,157**	4,920,664	2,540,264	304,832
b. Market risk						
1. Interest rate position risk	**-**	**-**	**-**	-	-	-
2. Equities position risk	**-**	**-**	**-**	-	-	-
3. Foreign exchange risk	**9,489**	**6,323**	**759**	3,005	2,003	240
4. Commodities risk	**-**	**-**	**-**	-	-	-
5. Options	**-**	**-**	**-**	-	-	-
Total	**9,489**	**6,323**	**759**	3,005	2,003	240
c. Operational risk	**126,113**	**151,661**	**18,207**	125,638	149,228	17,915
Total	**4,921,977**	**2,592,621**	**311,123**	5,049,307	2,691,495	322,987

B. Capital ratios

	2012	2011
1. Total capital ratio	**19.95%**	18.58%
2. Tier 1 capital ratio	**16.74%**	15.78%

iv) 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 credit risk, market risk, operational risk, liquidity risk, interest rate risk, reputational risk and strategic risk.

The Risk Management division of the Group is an independent and dedicated function reporting to the Chairman & Managing Director. The division is responsible for assessing, monitoring and recommending strategies for control of credit, market, liquidity and operational 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 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 are 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 strtegies and policies.

The Credit Committee is the executive management decision making body which is empowered to consider all credit 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 Investment Committee is an executive level decision-making committee for all investment issues. The Provisioning Committee is responsible for the overall evaluation and control of provisions taken by the Group and adherence to the related regulatory requirements.

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

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

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

(a) Credit Risk

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

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

The Bank introduced a revised obligor risk rating model during the year. It utilises an advanced algorithm using both financial and non-financial parameters to generate an obligor risk rate. 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 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. The new risk rating model is under implementation and is expected to be fully implemented during 2013. The disclosures given are based on the existing risk rating model. Maximum counterparty/group wise lending limits are applied to exposures according to regulatory norms for credit concentration.

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

The risk policies also address the need for hedging under certain circumstances. The measurement of hedge effectiveness is governed by the related policy on hedging 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 and collateral concentration under Pillar two of Basel II.

(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. 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. The erstwhile limit for the loan to deposit ratio was replaced during the year with the new limit for maximum amount allowed for lending, in line with the Central Bank's instructions. 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 a single customer and also deposits maturing within specific time bands thereby ensuring that the sources of funding remain adequately diversified. 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 II using internally developed methodology is also measured regularly.

The Basel Committee for Banking Supervision has introduced the Basel III regulations covering, among others, a global framework for liquidity risk management. While these regulations are currently being developed for Kuwait banks, the Bank has in 2012 proactively introduced the new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). These ratios are being measured and monitored regularly against internal limits that are progressively phased to meet the regulatory standards.

(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. During the year the Bank moved from a single, across-the-board rate shock on the IRSM to varied rate shocks for different time buckets / currencies for calculating the EaR. In addition, the economic value of equity is required to be calculated under certain pre-defined circumstances. Economic capital under pillar two for interest rate risk is measured regularly using an internally developed methodology.

(e) Operational Risk

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

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.

v) 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.

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

(a) Gross credit exposures

	2012			2011		
	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. Cash items	52,379	52,379	-	27,585	27,585	-
2. Claims on sovereigns	520,754	520,754	-	495,518	495,518	-
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	746,838	510,385	236,453	811,354	586,523	224,831
7. Claims on corporates	1,462,303	643,658	818,645	1,572,323	688,364	883,959
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	451,106	435,188	15,918	418,168	402,583	15,585
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	107,974	90,868	17,106	107,436	107,023	413
12. Other assets	1,445,021	1,436,555	8,466	1,488,280	1,439,227	49,053
	4,786,375	3,689,787	1,096,588	4,920,664	3,746,823	1,173,841

(b) Average gross credit exposures

	2012			2011		
	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. Cash items	39,982	39,982	-	26,949	26,949	-
2. Claims on sovereigns	508,136	508,136	-	502,248	502,248	-
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	779,096	548,454	230,642	631,131	479,038	152,093
7. Claims on corporates	1,517,313	666,011	851,302	1,643,262	723,314	919,948
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	434,638	418,886	15,752	419,367	403,707	15,660
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	107,706	98,946	8,760	179,912	179,456	456
12. Other assets	1,466,651	1,437,891	28,760	1,458,811	1,393,571	65,240
	4,853,522	3,718,306	1,135,216	4,861,680	3,708,283	1,153,397

(c) Total credit exposures by geographic sector

	KD 000's					
As at 31 December 2012	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1. Cash items	**52,379**	**-**	**-**	**-**	**-**	**52,379**
2. Claims on sovereigns	**520,754**	**-**	**-**	**-**	**-**	**520,754**
3. Claims on international organisations	**-**	**-**	**-**	**-**	**-**	**-**
4. Claims on PSEs	**-**	**-**	**-**	**-**	**-**	**-**
5. Claims on MDBs	**-**	**-**	**-**	**-**		**-**
6. Claims on banks	**116,349**	**513,019**	**109,980**	**5,331**	**2,159**	**746,838**
7. Claims on corporates	**1,420,915**	**5,862**	**34,931**	**595**	**-**	**1,462,303**
8. Claims on securitised assets	**-**	**-**	**-**	**-**	**-**	**-**
9. Regulatory retail	**451,106**	**-**	**-**	**-**	**-**	**451,106**
10. RHLs eligible for 35% RW	**-**	**-**	**-**	**-**	**-**	**-**
11. Past due exposure	**107,955**	**19**	**-**	**-**	**-**	**107,974**
12. Other assets	**1,430,531**	**1,986**	**10,955**	**1,549**	**-**	**1,445,021**
	4,099,989	**520,886**	**155,866**	**7,475**	**2,159**	**4,786,375**
Percentage of credit exposure by geographical sector	**85.7%**	**10.9%**	**3.3%**	**0.2%**	**0.0%**	**100.0%**

	KD 000's					
As at 31 December 2011	Kuwait	Asia	Europe	USA	Others	Total
1. Cash items	27,430	155	-	-	-	27,585
2. Claims on sovereigns	495,518	-	-	-	-	495,518
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	76,030	482,953	216,279	1,141	34,951	811,354
7. Claims on corporates	1,517,732	25,133	29,458	-	-	1,572,323
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	418,168	-	-	-	-	418,168
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	107,436	-	-	-	-	107,436
12. Other assets	1,467,835	5,247	13,361	1,764	73	1,488,280
	4,110,149	513,488	259,098	2,905	35,024	4,920,664
Percentage of credit exposure by geographical sector	83.5%	10.4%	5.3%	0.1%	0.7%	100.0%

(d) Funded credit exposures by geographic sector

As at 31 December 2012	KD 000's					
	Kuwait	Asia	Europe	USA	Others	Total
1. Cash items	52,379	-	-	-	-	52,379
2. Claims on sovereigns	520,754	-	-	-	-	520,754
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	116,349	319,379	72,662	1,427	568	510,385
7. Claims on corporates	643,658	-	-	-	-	643,658
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	435,188	-	-	-	-	435,188
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	90,849	19	-	-	-	90,868
12. Other assets	1,422,065	1,986	10,955	1,549	-	1,436,555
	3,281,242	321,384	83,617	2,976	568	3,689,787
Percentage of funded credit exposure by geographical sector	88.9%	8.7%	2.3%	0.1%	0.0%	100.0%

As at 31 December 2011	KD 000's					
	Kuwait	Asia	Europe	USA	Others	Total
1. Cash items	27,430	155	-	-	-	27,585
2. Claims on sovereigns	495,518	-	-	-	-	495,518
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	75,798	299,087	177,825	990	32,823	586,523
7. Claims on corporates	681,557	5,498	1,309	-	-	688,364
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	402,583	-	-	-	-	402,583
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	107,023	-	-	-	-	107,023
12. Other assets	1,418,782	5,247	13,361	1,764	73	1,439,227
	3,208,691	309,987	192,495	2,754	32,896	3,746,823
Percentage of funded credit exposure by geographical sector	85.6%	8.3%	5.1%	0.1%	0.9%	100.0%

(e) Unfunded credit exposures by geographic sector

	KD 000's					
As at 31 December 2012	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	-	**193,640**	**37,318**	**3,904**	**1,591**	**236,453**
7. Claims on corporates	**777,257**	**5,862**	**34,931**	**595**	-	**818,645**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**15,918**	-	-	-	-	**15,918**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	**17,106**	-	-	-	-	**17,106**
12. Other assets	**8,466**	-	-	-	-	**8,466**
	818,747	**199,502**	**72,249**	**4,499**	**1,591**	**1,096,588**
Percentage of unfunded credit exposure by geographical sector	**74.7%**	**18.2%**	**6.6%**	**0.4%**	**0.1%**	**100.0%**

	KD 000's					
As at 31 December 2011	Kuwait	Asia	Europe	USA	Others	Total
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	232	183,866	38,454	151	2,128	224,831
7. Claims on corporates	836,175	19,635	28,149	-	-	883,959
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	15,585	-	-	-	-	15,585
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	413	-	-	-	-	413
12. Other assets	49,053	-	-	-	-	49,053
	901,458	203,501	66,603	151	2,128	1,173,841
Percentage of unfunded credit exposure by geographical sector	76.8%	17.3%	5.7%	0.0%	0.2%	100.0%

(f) Total credit exposures by residual maturity

	KD 000's					
As at 31 December 2012	**Up to 1 Month**	**1 to 3 Month**	**3 to 6 Month**	**6 to 12 Month**	**over 1 year**	**Total**
1. Cash items	**52,379**	**-**	**-**	**-**	**-**	**52,379**
2. Claims on sovereigns	**144,536**	**191,533**	**128,219**	**56,466**	**-**	**520,754**
3. Claims on international organisations	**-**	**-**	**-**	**-**	**-**	**-**
4. Claims on PSEs	**-**	**-**	**-**	**-**	**-**	**-**
5. Claims on MDBs	**-**	**-**	**-**	**-**	**-**	**-**
6. Claims on banks	**312,894**	**228,919**	**56,706**	**29,424**	**118,895**	**746,838**
7. Claims on corporates	**245,964**	**414,420**	**210,369**	**348,457**	**243,093**	**1,462,303**
8. Claims on securitised assets	**-**	**-**	**-**	**-**	**-**	**-**
9. Regulatory retail	**2,542**	**7,069**	**5,771**	**7,784**	**427,940**	**451,106**
10. RHLs eligible for 35% RW	**-**	**-**	**-**	**-**	**-**	**-**
11. Past due exposure	**107,949**	**-**	**25**	**-**	**-**	**107,974**
12. Other assets	**622,857**	**251,005**	**208,036**	**101,546**	**261,577**	**1,445,021**
	1,489,121	**1,092,946**	**609,126**	**543,677**	**1,051,505**	**4,786,375**
Percentage of total credit exposures by residual maturity	**31.1%**	**22.8%**	**12.7%**	**11.4%**	**22.0%**	**100.0%**

	KD 000's					
As at 31 December 2011	Up to 1 Month	1 to 3 Month	3 to 6 Month	6 to 12 Month	over 1 year	Total
1. Cash items	27,585	-	-	-	-	27,585
2. Claims on sovereigns	104,303	182,561	113,594	95,060	-	495,518
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	377,131	227,637	43,988	63,975	98,623	811,354
7. Claims on corporates	290,245	361,786	296,572	208,849	414,871	1,572,323
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	5,290	6,404	4,604	6,624	395,246	418,168
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	104,162	141	658	2,353	122	107,436
12. Other assets	492,941	247,180	146,174	163,215	438,770	1,488,280
	1,401,657	1,025,709	605,590	540,076	1,347,632	4,920,664
Percentage of total credit exposures by residual maturity	28.5%	20.8%	12.3%	11.0%	27.4%	100.0%

(g) Funded credit exposures by residual maturity

	KD 000's					
As at 31 December 2012	**Up to 1 Month**	**1 to 3 Month**	**3 to 6 Month**	**6 to 12 Month**	**over 1 year**	**Total**
1. Cash items	52,379	-	-	-	-	52,379
2. Claims on sovereigns	144,536	191,533	128,219	56,466	-	520,754
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	261,762	172,061	41,165	5,669	29,728	510,385
7. Claims on corporates	120,880	193,794	81,310	173,553	74,121	643,658
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	1,132	3,648	2,663	3,647	424,098	435,188
10. RHLs eligible for 35% RW						
11. Past due exposure	90,843	-	25	-	-	90,868
12. Other assets	622,793	250,546	203,819	99,173	260,224	1,436,555
	1,294,325	811,582	457,201	338,508	788,171	3,689,787
Percentage of funded credit exposures by residual maturity	35.1%	22.0%	12.4%	9.2%	21.4%	100.0%

	KD 000's					
As at 31 December 2011	Up to 1 Month	1 to 3 Month	3 to 6 Month	6 to 12 Month	over 1 year	Total
1. Cash items	27,585	-	-	-	-	27,585
2. Claims on sovereigns	104,303	182,561	113,594	95,060	-	495,518
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	346,585	197,001	23,036	-	19,901	586,523
7. Claims on corporates	116,437	136,262	127,696	77,483	230,486	688,364
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	2,670	3,342	2,281	3,670	390,620	402,583
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	103,749	141	658	2,353	122	107,023
12. Other assets	492,671	244,482	134,580	130,008	437,486	1,439,227
	1,194,000	763,789	401,845	308,574	1,078,615	3,746,823
Percentage of funded credit exposures by residual maturity	31.9%	20.4%	10.7%	8.2%	28.8%	100.0%

(h) Unfunded credit exposures by residual maturity

	KD 000's					
As at 31 December 2012	**Up to 1 Month**	**1 to 3 Month**	**3 to 6 Month**	**6 to 12 Month**	**over 1 year**	**Total**
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	**51,132**	**56,858**	**15,541**	**23,755**	**89,167**	**236,453**
7. Claims on corporates	**125,084**	**220,626**	**129,059**	**174,904**	**168,972**	**818,645**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**1,410**	**3,421**	**3,108**	**4,137**	**3,842**	**15,918**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	**17,106**	-	-	-	-	**17,106**
12. Other assets	**64**	**459**	**4,217**	**2,373**	**1,353**	**8,466**
	194,796	**281,364**	**151,925**	**205,169**	**263,334**	**1,096,588**
Percentage of unfunded credit exposures by residual maturity	**17.8%**	**25.7%**	**13.9%**	**18.7%**	**24.0%**	**100.0%**

	KD 000's					
As at 31 December 2011	Up to 1 Month	1 to 3 Month	3 to 6 Month	6 to 12 Month	over 1 year	Total
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	30,546	30,636	20,952	63,975	78,722	224,831
7. Claims on corporates	173,808	225,524	168,876	131,366	184,385	883,959
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	2,620	3,062	2,323	2,954	4,626	15,585
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	413	-	-	-	-	413
12. Other assets	270	2,698	11,594	33,207	1,284	49,053
	207,657	261,920	203,745	231,502	269,017	1,173,841
Percentage of unfunded credit exposures by residual maturity	17.7%	22.3%	17.4%	19.7%	22.9%	100.0%

(i) Impaired loans by standard portfolio

	2012 KD 000's			2011 KD 000's		
	Gross Debt	**Specific Provision**	**Net Debt**	Gross Debt	Specific Provision	Net Debt
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	-	-	-	-	-	-
7. Claims on corporates	**50,619**	**(1,654)**	**48,965**	144,821	(41,672)	103,149
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**10,994**	**(7,423)**	**3,571**	9,183	(5,308)	3,875
10. RHLs eligible for 35% RW	-	-	-	-		
11. Past due exposure	-	-	-	-		
12. Other assets	-	-	-	-		
	61,613	**(9,077)**	**52,536**	154,004	(46,980)	107,024

(j) General provision and provisions charged to statement of income by standard portfolio

	2012 KD 000's		2011 KD 000's	
	General Provision	**Statement of Income**	General Provision	Statement of Income
1. Cash items	-	-	-	-
2. Claims on sovereigns	-	-	-	-
3. Claims on international organisations	-	-	-	-
4. Claims on PSEs	-	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	-	-	-	-
7. Claims on corporates	**69,130**	**62,982**	75,691	94,417
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	**5,547**	**(3,616)**	5,099	(1,343)
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	-	-	-
12. Other assets	**13,886**	**33,274**	13,839	7,333
	88,563	**92,640**	94,629	100,407

(k) Impaired loans and provisions by geographic sector

	2012 KD 000's			2011 KD 000's		
	Gross Debt	**Specific Provision**	**Net Debt**	Gross Debt	Specific Provision	Net Debt
Kuwait	**61,613**	**(9,077)**	**52,536**	154,004	(46,980)	107,024
Asia	**-**	**-**	**-**	-		
Europe	**-**	**-**	**-**	-		
USA	**-**	**-**	**-**	-		
Others	**-**	**-**	**-**	-		
	61,613	**(9,077)**	**52,536**	154,004	(46,980)	107,024

General provision as at 31 December 2012 amounting to KD 88,563 thousand (2011: KD 94,629 thousand) is related to Kuwait.

(l) Movement in provisions

	2012 KD 000's			2011 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**46,980**	**94,629**	**141,609**	175,219	73,538	248,757
Write-offs	**(112,183)**	**-**	**(112,183)**	(240,984)	-	(240,984)
Exchange differences	**(480)**	**-**	**(480)**	(866)	-	(866)
Recoveries	**12,992**	**-**	**12,992**	26,311	-	26,311
Ceded to Central Bank	**(13)**	**-**	**(13)**	(9)	-	(9)
Statement of income	**68,203**	**(6,066)**	**62,137**	87,309	21,091	108,400
Provisions 31 December	**15,499**	**88,563**	**104,062**	46,980	94,629	141,609

(m) Credit exposures after CRM and CCF

	2012 KD 000's		2012 KD 000's	
	Credit Exposures after CRM		Credit Exposures after CRM	
	Rated Exposures	**Unrated Exposures**	Rated Exposures	Unrated Exposures
1.Cash items	**-**	**52,379**	-	27,585
2.Claims on sovereigns	**-**	**521,005**	-	495,735
3.Claims on international organisations	**-**	**-**	-	-
4.Claims on PSEs	**-**	**-**	-	-
5.Claims on MDBs	**-**	**-**	-	-
6.Claims on banks	**507,975**	**123,841**	603,088	92,292
7.Claims on corporates	**-**	**897,779**	-	888,819
8.Claims on securitised assets	**-**	**-**	-	-
9.Regulatory retail	**-**	**435,743**	-	402,572
10.RHLs eligible for 35% RW	**-**	**-**	-	-
11.Past due exposure	**-**	**67,760**	-	65,437
12.Other assets	**-**	**745,232**	-	801,507
	507,975	**2,843,739**	603,088	2,773,947

vi) Credit risk mitigation

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

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

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

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

	KD 000's			
As at 31 December 2012	**Total gross exposures**	**Collateralised Exposures**	**Financial Collaterals**	**Bank Guarantees**
1.Cash items	**52,379**	**--**	**-**	**-**
2.Claims on sovereigns	**520,754**	**-**	**-**	**-**
3.Claims on international organisations	**-**	**-**	**-**	**-**
4.Claims on PSEs	**-**	**-**	**-**	**-**
5.Claims on MDBs	**-**	**-**	**-**	**-**
6.Claims on banks	**746,838**	**-**	**-**	**-**
7.Claims on corporates	**1,462,303**	**325,094**	**93,266**	**-**
8.Claims on securitised assets	**-**	**-**	**-**	**-**
9.Regulatory retail	**451,106**	**13,526**	**6,664**	**-**
10.RHLs eligible for 35% RW	**-**	**-**	**-**	**-**
11.Past due exposure	**107,974**	**47,973**	**28,514**	**-**
12.Other assets	**1,445,021**	**614,814**	**695,556**	**-**
	4,786,375	**1,001,407**	**824,000**	**-**

	KD 000's			
As at 31 December 2011	Total gross exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1.Cash items	27,585	-	-	-
2.Claims on sovereigns	495,518	-	-	-
3.Claims on international organisations	-	-	-	-
4.Claims on PSEs	-	-	-	-
5.Claims on MDBs	-	-	-	-
6.Claims on banks	811,354	-	183	-
7.Claims on corporates	1,572,323	482,089	153,876	-
8.Claims on securitised assets	-	-	-	-
9.Regulatory retail	418,168	14,029	6,995	-
10.RHLs eligible for 35% RW	-	-	-	-
11.Past due exposure	107,436	72,322	41,793	-
12.Other assets	1,488,280	662,735	656,993	-
	4,920,664	1,231,175	859,840	-

vii) 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:

	2012	2011
	KD 000's	KD 000's
1. Interest rate position risk	**-**	-
2. Equity position risk	**-**	-
3. Foreign exchange risk	**759**	240
4. Commodities risk	**-**	-
5. Options	**-**	-
	759	240

viii) Operational risk

The Group uses the standardised approach for computation of operational risk capital charge that amounted to KD 18,207 thousand (2011: KD 17,915 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.

ix) Equity position

The majority of equity holdings are taken with the expectation of capital gains and dividend income. Certain holdings in the funds managed by the Group are taken to comply with regulations that require the Group as fund manager to hold at a minimum 5% of the outstanding issued units. Strategic equity holdings are taken in financial institutions where the Group expects to develop a business relationship or ultimately gain control of that entity.

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

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

"significant" or "prolonged" decline in the fair value below its cost.
The quantitative information related to equity investment securities in the Group are as follows:

	2012	2011
	KD 000's	KD 000's
1. Value of investment disclosed in the balance sheet	**335,991**	326,632
2. Type and nature of investment securities		
Available for sale		
Equity securities -quoted	**299,271**	279,921
Equity securities -unquoted	**36,720**	46,711
	335,991	326,632
3. Cumulative realised (loss) gains (net) arising from sales of investment securities	**(3,875)**	352
4. Total unrealised gains (net) recognised in the balance sheet but not through profit and loss account	**19,048**	67,595
5. 45% of item (4) included in Tier 2 capital	**8,572**	30,418
6. Capital requirements		
Available for sale	**39,062**	34,735

x) 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:

	2012		2011	
	Impact on earings		Impact on earings	
	±@1%	**±@2%**	±@1%	±@2%
Kuwaiti dinars	**6,482**	**12,964**	8,282	16,563
US dollars	**(1,496)**	**(2,992)**	(813)	(1,625)
Other currencies	**1,005**	**2,010**	163	326
	±5,991	**±11,982**	±7,632	±15,264

BRANCH NETWORK

	Tel	Fax
Mubarak Al-Kabir	22990000	22464870
Abdulla Mubarak Street	22990005	22404826
Abu Halifa (Kuwait Magic)	22990043	23720449
Airport (Arrival)	22990004	24741951
Airport (Cargo)	24712099	24712088
Airport (Departure)	24740026	24741951
Fahaheel - Ajyal Complex	22990011	23913905
Al Rai	22990045	24724867
Al Dhow	22990058	22411961
Ali Sabah Al Salem	22990042	23280662
Al Naeem	22990056	24571797
Al Rabia	22990057	24719677
Al Soor Street	22990060	22418997
Andalus	22990036	24889129
Ardhiya	22990019	24887316
Dahiyat Abdulla Mubarak	22990059	22990193
Dhaher	22990041	23830726
Dasma	22990062	22990102
East Ahmadi	23980254	23980434
Fahaheel	22990006	23923779
Farwaniya Co-op	22990027	24723493
Hadiya	22990064	22990232
Hawalli	22990016	22616451
Hawalli (Beirut Str)	22990020	22621904
Jabriya	22990035	25334632
Jahra	22990007	24551580
Jleeb Al Shyoukh	22990063	22990153
Khaitan	22990008	24745584
Khaldiya	22990015	24810549
Kuwait Free Trade Zone	22990038	24610062
Labour Unit	22990763	24335856
Mansouriya	22990044	22573880
Ministries Complex	22990031	22474151
Omariya	22990010	24723487
Qurain	22990024	25440035
Ras Salmiya	22990033	25719570
Riggae	22990050	24893885
Rumaithiya	22990018	25654902
Sabah Al Salem	22990054	22990354
Sabahiya	22990012	23617302
Salhiya	22990030	22463492
Salmiya	22990023	25727053
Salwa	22990051	25610780
Sharq	22990026	22454869
Shuwaikh	22990021	24837952
Six Ring Road	22990034	24345382
Souk Salmiya	22990048	25737326
South Surra	22990055	22990355
Sulaibikhat	22990013	24877318
Vegetable Market	22990028	24817859
West Mishref	22990046	25379277
Yarmouk	22990032	25352182

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