التجاري
Al-Tijari

ANNUAL REPORT 2019

Commercial Bank of Kuwait (K.S.C.P)

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

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

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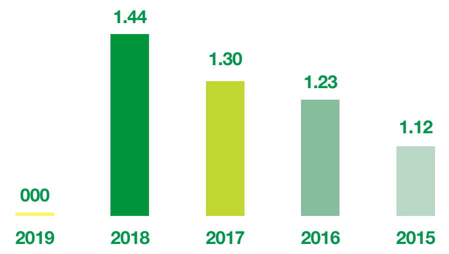
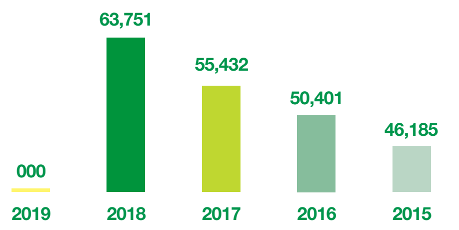


Return on Average Assets %



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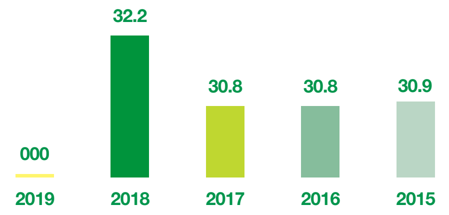

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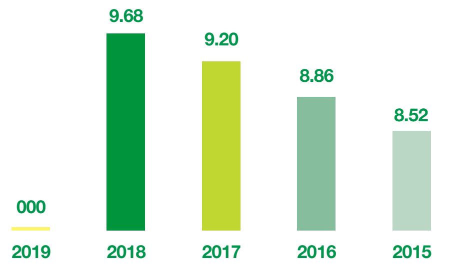

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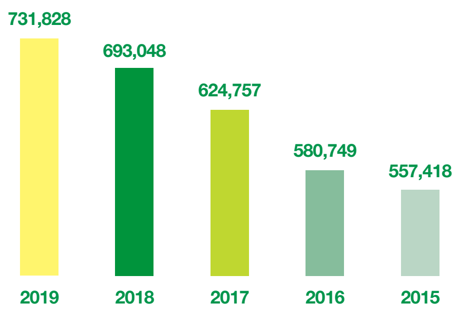
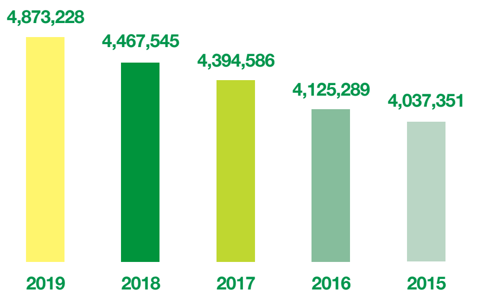


Equity Attributable to Shareholders of the Bank
KD 000's



Total Assets
KD 000's

Board of Directors

Board of Directors

Sheikh/ Ahmad Duaij Al Sabah
Chairman

Ms. Anoud Fadel Al Hathran
Deputy Chairperson

Mr. Abdulrahman Abdullah Al Ali
Member

Mr. Bader Sulaiman Al Ahmad
Member

Dr. Arshid Abdulhadi Al Houri
Member

Mr. Musaed Nouri Al Saleh
Member

Mr. Hazem Meshari Al Khaled
Member

Ms. Rasha Y. H. Al Awadhi
Member

Sheikh/ Talal M. Al Sabah
Member

Mr. Manaf M. Al Muhanna
Member

Ms. Mona Hussain Al Abdulrazzaq
Secretary to the Board

Introduction

Introduction

Al-Tijari... My Choice

Commercial Bank of Kuwait, the second oldest incorporated Bank in Kuwait has identified clear objectives to become among the leading banks in Kuwait by providing superior & innovative banking services and investment solutions which cater for all the requirements of its retail and corporate customers and demonstrate its well-established and profound franchise in Kuwait banking industry.

Amidst of the accelerating developments the banking sector is witnessing whether on local, regional or international level, the Bank's Management strategic vision & prudent policy proved pivotal and enabled the Bank to benefit & exploit all available growth opportunities with a view to enhance its customer-tailored products offering & services apart from managing the risks associated with its business activities. Accordingly, the Bank managed to achieve steady operating profits year by year.

In order to cope with digital banking solutions and technology advancements seen in banking industry, the Bank endeavored to upgrade its platforms with a view to provide its customers with unrivalled and cutting-edge digital banking services. Apart from the Bank's self-service branch network which copes with the latest developments seen in banking industry, Al-Tijari Online Banking & Mobile App offer customers top-notch & secured banking experience.

The Bank will remain on course for accentuating its past accomplishments and taking advantage of future growth opportunities by participating in financing the State's pivotal projects and providing the best-in-class services & products and innovative digital solutions through employing sophisticated technologies & e-channels that will guarantee the provision of services through professional & highly skilled team members.

As an integral part of Kuwait society, the Bank stay focused on inclusive social development by designating innovative social responsibility programs targeting all society segments. Such programs are meant to truly reflect social solidarity through the Bank's sponsorship & support of the diverse activities organized by civil society institutions in Kuwait, and this, in its turn, will further underline the principles established by the Senior Management, namely citizenship, leadership and corporate social responsibility.

Chairman's Message

Chairman’s Message

Sheikh/ Ahmad Duaij Al Sabah
Chairman

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

It is both an honor and a privilege to deliver my second statement as the Chairman of the Bank. We have completed another year in a challenging economic environment, focused on delivering good operating results and making the investments necessary for a strong future. We have invested in technology and digital solutions to meet our customers’ needs and are constantly innovating to lead in class wherever we compete. Banking is changing, and we are committed to drive that change. We have a remarkable culture of engagement and commitment among our employees who make everything we do possible. They are driven by purpose, determined and committed to the bank. The bank continues to deliver sustainable results at operating profit level with return on equity before provision at 15.2%. Last year we adopted a proactive policy of early recognition of any expected problems and achieved non-performing loans level of zero. In continuation, we allocated most of the operating profit to create specific provision against some loans where management had some concerns. This specific provision was used to transfer those loans to memorandum account and resultant net profit attributable to the shareholders of the bank is zero. Thus, we maintained the non-performing loans at zero. It is a demonstration of our commitment to operate within our risk appetite but maintain strong capital and liquidity positions.

Focusing on efficiency gains

Our purpose also requires us to be disciplined as we drive Al-Tijari forward, building competitive strength by enabling operational excellence to deliver greater value to our customers. We’re making clear choices about where to focus the bank’s resources in order to accelerate the execution of our strategy, deliver earnings resilience and continue growing our customer base. As we maintain steady progress in improving the efficiency of our processes and systems, we uphold the strong risk controls that have always been foundational for Al-Tijari’s growth. Our bank is in motion, adjusting proactively to changing market realities - and that means working harder than ever to realize the full benefits of our technology architecture. New initiatives were taken during 2019 to introduce new features like, but not limited to document verification by using QR technology, T-Pay for QR payments within CBK, changing password through mobile banking, KYC update, change security questions/answers through mobile banking and video tutorials about our products and services on mobile banking for customers education and easy guidance. Change transfers limit, KNET mobile (OTP) amendment, user ID retrieval via mobile and online banking and enabled T-Pay service for business accounts. Amend card limit through CBK mobile, cheque validation, allow customers to unlock their user I.D’s or retrieve user I.D/ATM PIN, view standing instructions, online cheque entry enhancement with scanning ability, selection of multiple salary batches and cheques entry and transfer process with a single touch. Electronic Dividends subscription via CBK Mobile, display foreign currency transaction and its KD equivalent for accounts & prepaid cards and enhanced notifications via CBK mobile by enabling/disabling all accounts/cards alerts in a single OTP request.

Digitizing Al-Tijari

Integral to Al-Tijari's efficiency goals and broader growth ambitions is our investment in technology. The powerful platform we've built gives us the resilience and scalability to sustain critical services and keep pace with customers' changing needs. And as new opportunities arise, we're ready to respond quickly. It's rewarding to see our digital and mobile offerings earn top marks from customers, along with recognition from peers. As customers entrust us with the data we need to make banking simpler and more personal, we're intensifying vigilance in cyber security and fraud protection. In 2019, we integrated the bank's defensive capabilities into a central function, with a mandate to protect against threats and strengthen the trust that customers place in us.

Synopsis of 2019 Financials

We generated an operating profit, before provisions, of KD 108.5 million for the year 2019 (2018: KD 106.0 million). In line with Bank's prudent policy of proactive recognition of problems, the operating profit was mainly allocated to specific provisions against certain loans where the management has some concerns. The specific provision was used to transfer those loans to the memorandum account. The resultant net profit attributable to the shareholders of the bank is zero for the year 2019 (2018: KD 63.8 million). As at the end of the year, total provisions held with the bank amounted to KD 127.3 million. The Bank will continue to pursue its right to recover loans transferred to the memorandum account by taking appropriate measures required in this regard. The operating profit before provision was higher by KD 2.4 million (2.3%) compared to last year. The Bank witnessed a healthy growth in the key areas of business and revenue. Total assets increased by 9.0% to reach KD 4.9 billion. Operating income grew by 5.1%, interest income by 3.6% and fee income by 4.2%.

Looking at the future

We hold ourselves to high standard, because doing what's right - always, even when it's not the easy choice - creates loyal customers. We've set priorities, our customers and all of our stakeholders count on us to act decisively in the face of change. We will continue doing our part to move things forward and provide tailored banking services with value addition to our customers, thus becoming "Bank of Choice". Bank is also committed to make positive impact on the society as a whole.

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

Sheikh/ Ahmad Duaij Al Sabah

Executive Management

Executive Management

Elham Yousry Mahfouz
Chief Executive Officer

Ahmed Mohammed Saif Al Deen Farahat
Chief Internal Auditor - Internal Audit Division

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

Tamim Khaled Al Meaan
GM - Compliance & Corporate Governance Division

Masud Ul Hasan Khalid
Chief Financial Officer
Financial Planning & Control Division

Muneer Abdulsalam Saleh
Legal Advisor to Chairman and GM - Legal Division

Hussain Ali Al Aryan
GM - Treasury & Investment Division

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

Hanadi Ahmad Al Musallam
Acting GM - Retail Banking Division

Bader Mohammed Musleh Qamhieh
Acting GM - Information Technology Division

Paul Abdoulnour Daoud
GM - Operations Division

Sadeq Jaafar Abdullah
GM - Human Resources Division

Abhik Goswami
Chief Risk Officer - Risk Management Division

Sheikh/ Nawaf Ali Sabah Al Sabah
Senior Manager - General Services Division

Economic Background

Global Economy:

Global growth is forecast at 3.0 percent for 2019, its lowest level since 2008-09 and a 0.3 percentage point downgrade from the April 2019 World Economic Outlook. Growth is projected to pick up to 3.4 percent in 2020 (a 0.2 percentage point downward revision compared with April), reflecting primarily a projected improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that are under macroeconomic strain. Yet, with uncertainty about prospects for several of these countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize. To forestall such an outcome, policies should decisively aim at defusing trade tensions, reinvigorating multilateral cooperation, and providing timely support to economic activity where needed. To strengthen resilience, policymakers should address financial vulnerabilities that pose risks to growth in the medium term. Making growth more inclusive, which is essential for securing better economic prospects for all, should remain an overarching goal.

Kuwait Economy:

Kuwait economic growth in 2019 so far appears to be better than the official forecast due to less volatile oil prices and steady growth in the non-oil GDP sector. EIA data shows oil production averaged 2.7 million barrels per day (mbpd) that is slightly lower than previous year's average production. Slumping oil production dragged the economic growth, however the non-oil sector growth stimulated money supply, created more employment, and increased consumption. Overall GDP growth is expected to be 1.40% in 2019 and 2.40% in 2020.

Kuwait budgeted 2019-2020 with a deficit of $22 billion, wherein the estimated revenue is $53 billion and expenditure is $75 billion. The projected deficit accounts to be around 15.7% of the country's GDP. This will be the fifth straight year Kuwait will be facing a budget deficit as the collapse of oil prices in 2014 caused a sharp drop in the revenue.

Inflation is expected to rise moderately to 1.7% pa which is highest since May 2017 and in the medium term it may reach 2.5%.

KWD interbank money market as well as customer deposit rates have significantly gone higher during the year 2019 mainly due to large pullout of money from government customers. The situation is expected to remain tight going into the year 2020 as well.

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

USDKWD traded in a tight range of 0.3020 to 0.30450 in 2019, mainly due to stable price movement in the basket of currencies against which USDKWD is partially pegged.

Kuwait Stock Market:

Kuwait stock market has seen increased volume trading this year due to high demand from the foreign investors. Especially the blue chip firms belonging to premier market segment have outperformed by posting excellent return in 2019. Premier market index opened this year at 5267 levels and made an all-time high of 7008. This index has posted a year-to-date gain of 32% based on the 31st Dec 2019 closing price of 6975.

Market is looking for a direction from the global ques, especially related to the monetary policy from various Central banks around the world. Foreign investors demand is expected to further boost the market value since it is part of the MSCI-EM index. However, the major threat for the market will be a slump in the oil price backed by a recessionary fear in the global markets, geopolitical tension, and deteriorating corporate profitability.

Review of Operations

Retail Banking Division

In the beginning of 2019, Commercial Bank of Kuwait has secured Guinness World Record of the largest prize-linked bank account payout in the world for KD 1,500,000 for Al-Najma account. The Bank was the first in Kuwait to launch Al-Najma prize offering certificate which was then renamed as Al-Najma account. In a large event that took place in Avenues Mall and attended by the executive management team a representative of Guinness world has delivered the Bank certificate that marked this important achievement by Al-Tijari.

It is undeniable that Commercial Bank of Kuwait always endeavors to provide the best-in-class retail banking services & products to its individual customers through Retail Banking Division so that the Bank would remain one of the leading banks that spare no efforts and devote all capabilities required to meet customers' requirements and provide a wide spectrum of innovative services by keeping up with the latest technology advancements that the Bank seek to take advantage thereof in digital transformation. The Bank has plans in place to offer a wide and full range of online banking services with focus on delivering sophisticated services via CBK Mobile App which offers a variety of innovative services in banking sector and enables customers to conduct their banking transactions smoothly, swiftly and safely through their smart phones from anywhere in the world without the need to visit any of the Bank's branches. Year 2019 saw RBD launching a number of services & products and developing the existing ones in line with the modernization of banking services as follows:

- Launching Visa Signature card: with its aim to increase its credit card portfolio, CBK launched in Q2,2019 the VISA signature card along with a loyalty program of up to 3% cash back , the card was launched with free 5 years renewal fees.

- E-gov Card: the bank have launched the first card in the market that you can control its various usage channels through CBK mobile app or online banking, customers issuing this Debit card can control the channels available to use the card in it like POS, ATM Cash Withdrawal, international usage, K-Net payment gateway.

- T-pay Service: in compliance with its effort to be up to date with the latest technological trends and new ways of payments. The bank has developed a new service, T-Pay , which would cope with the quick pace of your life and redefine the payment industry. T-Pay is a new way of payment which allows customers to pay and collect money using the latest QR code technology, the product was launched along with a support campaign to encourage mobile app download, T-pay usage with partners and account notification.

- Concierge services: Within its endeavors to provide excellent services for Premium Credit cardholders, the bank have upgraded its concierge service and partnered with the renowned Peacock concierge company to provide distinguishable service to its clientele.

- New partners for the Medical loan product: the bank keep focusing on creating partnership with renowned clinks and hospital, in 2019, new partners have opted for the interest free medical loan.

- Organizing a number of campaigns for promoting the Bank's products by launching salary transfer campaign under the slogan “Salary & Cash on Top” in addition to credit card campaign and card usage campaign launched under the caption “Your Summer In Cash” for all Al-Tijari credit, debit and prepaid cardholders and card usage outside Kuwait during travel season to provide them the chance to be eligible for the draw and win prizes for cash back up to KD10,000.

- As for the new services and upgrade on mobile and online banking, many changes were introduced for the bank mobile banking application and online banking as follows :

1. The possibility of changing the cash withdrawal limits for the debit card and purchases on the POS and payment devices through the electronic payment gateway.
2. Electronic dividends subscription for companies listed in Kuwait Stock Exchange through bank mobile and online banking.
3. The service of requesting the PIN of the debit card and prepaid through bank mobile application.
4. Adding the service of access to monthly fixed standing order through bank mobile and online banking.
5. Adding the service of accessing subscriptions to safe deposit through bank mobile and online banking.
6. Adding the service of checking the entry of checks data withdrawn on Commercial Bank by the beneficiary and facilitating entering the check data with the scanning feature through bank mobile.
7. Developing notification service and facilitate the activation of all accounts and cards in one procedure and one OTP through bank mobile application.
8. Show authorizations on credit cards.
9. Adding the possibility of changing mobile number, password and security questions through bank mobile and online banking.

In view of the fast-growing digital transformation of retail banking services, RBD will continue its efforts to provide customers with excellent services in a way that enables them to conduct their transactions easily and in a convenient & secured manner via online banking, mobile banking (smart phones), ATMs or branches so that Al-Tijari would remain the Bank of choice for customers.

Corporate Banking Division

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

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

Credit is extended by way of short term working capital facilities to finance day-to-day operations and also medium/long term loans for capital expenditure and investment needs. In addition, CBD endeavors to support Kuwait's economic growth by extending credit facilities through direct financing or by participating in syndicated loans to finance mega government/quasi-government projects/PPP projects. Besides, CBD is also focusing on financing emerging sectors. During the year, CBD has financed various governmental projects worth about KD 800 Million.

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

International Banking Division

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

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

In 2019, despite challenging operating environment saddled with ample global liquidity and persisting tight margins, the Division has continued to increase its contribution to the Bank's over-all profitability. Through a combination of syndicated and bilateral transactions as well as establishing new business relationships, the Division posted growth in its portfolio of funded and unfunded assets. During 2019, the Division was very active in the syndicated market and participated at mandated lead arranger/lead arranger level in respect of syndication transactions of Turkish Banks; and leasing companies based out of Middle East and Far East. The Division also concluded number of transactions on bilateral basis with clients based out of Africa, South Asia and the Far East. The Division was also active in the secondary market and purchased few loans from South Asia.

The Division was the initial mandated lead arranger and book runner for a major Public Private Partnership (PPP) project in Kuwait. The project SPV for execution of the project is now under incorporation and the financial closure of the project is likely to be completed by December 2019. The Division will continue to participate in such PPP projects to generate stable income in future years. The Division also took the lead role in the issuance of the retention bond for a large infrastructure project in Oil & Gas sector in Kuwait. The Division also developed new business relationships with few companies from the Far East, Turkey and Europe which are executing projects in Kuwait.

The loosening of monetary policy by regulators in US, Asia and Europe as well as continuing global economic challenges can impact the profitability and growth in the near future.

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

Treasury and Investment Division

The bank's liquidity remained robust throughout the year 2019 despite some strain in the customer deposit market. We have seen a large pullout of deposits by major customers and a significant drop in the long-term deposits this year. There was a major drop in the CBK bond portfolio (HQLA) due to the redemption of T-Bonds. Our focus was mainly on strengthening the bank's liquidity, controlling the cost of funds, diversifying the customer base (reduce the concentration), and adding new products & services.
TID obtained approval from the Board of Directors for raising funds under the bilateral loan agreement and in coordination with IBD have successfully raised so far USD 200 million in the 3 years' tenor. The strategy will be to add further liabilities in different products, currencies, tenor, counterparties, and geographies. This initiative will enhance the duration of overall borrowed funds at a relatively better cost of funds.

Bond portfolio yield improved during the year despite a drop in the USD and AUD interest rates. Such yield betterment was achieved through tenor switching and increased primary market participation. Our risk mitigation strategy in term of liquidity, FX, & Interest rates have helped us contribute towards a risk-adjusted better profitability.

TID is well equipped with the latest technology fast execution trading portals such as Reuters FX trading, Bloomberg, and private major bank platforms. Our system efficiency and control features helped us achieve a paperless dealing atmosphere and improve efficiency. Our customer FX business this year through these trading portals has reported the highest turnover ever.

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

- **Foreign Exchange Desk:** Trading & covering in FX Spot/Forward & Swaps;
- **Money Market & Invt. Desk:** Taking care of cash flow management, Inter-bank lending/borrowing, fixed income securities, liquidity and other related statutory ratio management, investment portfolio, and bilateral loans (borrowings).
- **Corporate Desk:** Taking care of corporate client's requirements offering various types of Treasury products such as deposits, FX spot, FX forwards, FX swaps, interest rate swaps, etc.

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

Risk Management Division

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

Risk Management structure and independence:

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

The Credit and Investment review unit is responsible for pre-fact assessment of Corporate Credit and International Banking including assessment of credit lines for various countries and banks and investment proposals as per the Credit Policy/Investment Policy. The Credit Review Unit is also responsible for updating and maintenance of risk grades of corporate credit exposures. In addition the Credit & Investment review unit is responsible for reviewing and updating the Credit Policy of the Bank at periodic intervals so as to ensure that the policy is attuned to the operating environment and is in line with regulatory guidelines.

The Operational Risk unit is responsible for monitoring, measuring and reporting the operational risks of the Bank. Operational risk unit collects operational risk data through Risk & Control Self Assessment, KRIs, procedure reviews and reported incidents. A loss database is maintained and reported in the periodic risk management reports. Operational risk unit is also responsible for the bank wide insurance management and for coordinating the bank wide Business Continuity Plan and ensuring regular testing. Bank-wide BCP test was conducted successfully in June 2019.

Loan Review and Credit Portfolio Control Unit was established during 2019 to handle the following responsibilities which hitherto were handled by the Credit & Investment Review Unit: (a) Evaluating the overall risk profile of the Obligor/borrower on a post-fact basis - based on selection criteria approved by the Management and mainly including exposures of KD 30MM and above, and high risk rating exposures, (b) Monitoring the Corporate Credit Administration (CAD) Function on a daily basis to ensure that credit dispensation is in compliance with the related approvals as well as conforming to internal and regulatory guidelines, (c) Developing monthly control reports highlighting the main observations of the Corporate, and Investment exposures, and (d) Conducting a comprehensive review and analysis of the Corporate Banking Credit, International Banking, Treasury, Investments and Retail Credit Portfolios on a semi-annual basis. Additionally, the Unit is also entrusted to provide independent risk opinion to the Management to improve the overall performance of the facilities, crystallize corrective/recovery actions (if deemed necessary), and take precautionary actions to avoid any potential future losses.

The Risk Policies and Analytics unit is responsible for monitoring market, liquidity, interest rate, strategic, reputational, compliance and legal risks. It is also responsible for calculating the economic capital for various risks under ICAAP, conducting stress tests, reporting these to the ALCO, BRMC, Board and the Central Bank, keeping the risk management policies up to date, and conducting regular meetings of ALCO and CIC for investments items. Stress tests were conducted on time and the results were appropriately reported. The unit provided key quantitative inputs for ECL calculation under IFRS9. The unit is also responsible for analysis of all KSE listed shares for inclusion as part of acceptable list of collaterals and determining the applicable coverage requirements. The unit also prepares a monthly risk management report which is circulated to the ALCO members. The unit also determines and monitors the strategy metrics comprising of various risk appetite parameters including macroeconomic variables.

The Information Security unit is responsible for monitoring, measuring and reporting all the bank's information Security risks [internal and external threats whether deliberate or accidental] on Information Assets of the bank. Information Security ensures that Risks are assessed, gaps identified and the recommended security controls are in line with Regulatory requirements and best practices. These are communicated to the Risk owners to protect Bank's confidential information against unauthorized access and inappropriate disclosures and to ensure that the Information assets are kept safe. Information Security sets up, maintains and defines the policies & processes and tests the effectiveness of the controls in order to secure Information Assets. The Risks thus identified and the treatment plans are reported to the BOD and the Board Risk Management Committee.

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

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

Treatment of different types of risks:

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

a) Credit Risk

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

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

The Bank uses an obligor risk rating model developed and periodically validated by reputed external consultants. It utilises an advanced algorithm using both financial and non-financial parameters to generate an obligor risk rating. The system follows a scale of 1 to 11 with 1 being the best risk and 11 being the worst. The internal risk rating is used to drive the credit approval process. During the year the Bank further enhanced its credit rating methodology to rate individual high networth customers based on detailed financial and behavioural criteria developed in consultation with an independent consultant. The obligor rating is calibrated to probability of default. Non-financial considerations are industry specific and thus allow more fine-tuned risk assessment for different industries. Maximum counterparty/group wise lending limits are applied to exposures according to regulatory norms for credit concentration.

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

The Bank also measures economic capital for credit risk including capital for obligor and collateral concentration under Pillar 2 of Basel III. Measurement of concentration risks uses a model that comprehensively captures name, sector and geographic concentration risks.

b) Market Risk

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

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

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

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

c) Liquidity Risk

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

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

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are being measured and monitored regularly against regulatory limits and internal limits.

d) Interest Rate Risk

Interest rate risk is managed as per the guidelines laid down in the Interest Rate Risk Management Policy. The majority of the assets and liabilities of the Bank mature and / or re-price within one year and hence there is limited exposure to interest rate risk. Interest rate risk is monitored with the help of an interest rate sensitivity monitor (IRSM) in which assets and liabilities are distributed in pre-defined maturity/re-pricing time bands. The Earnings at Risk (EaR) is computed by applying pre-defined rate shocks to the IRSM and this is compared against internal limits that define the Bank’s appetite for this risk. Varied rate shocks for different time buckets/currencies are used for calculating the EaR. In addition, the sensitivity of the economic value of equity is also calculated. Economic capital under Pillar 2 for Interest Rate Risk is also measured regularly.

e) Operational Risk

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

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

f) Other risks

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

Information Technology Division

Technology is changing the way businesses operate and deliver products to customers particularly in the banking industry.

While Information Technology Division will be in the heart of digital services, collaboration with business lines and customer-facing departments made 2019 another year of success for the bank in its digital transformation initiatives. 2019 saw ITD taking the lead in digital banking transformation projects.

We implemented the Instapay, this allows our customer to request payment from any entity or individual who has a Bank account in any bank in Kuwait. This started our journey to a cashless society.

We developed our own Digital Wallet which we called Tijari Pay (T-Pay). This is the first wallet implemented by a Bank in Kuwait. Through our Mobile Banking platform our customers can transfer or request payment from each other by just generating a QR code having the other scan it. We started to partner with companies to accept payment through TPay providing convenience and prestige to our clients. Without a need for a card or cash payment can be done using the mobile phone. We are continuing to build our systems using these applications for we believe in a cashless transaction in future.

Documents generated in all the systems of Commercial Bank of Kuwait are now stamped with QR code. This allows the person receiving the document to verify its authenticity by just scanning the code using our Mobile Banking application. This process lowered the possibility of frauds by preventing the generation of counterfeit documents as purportedly coming from Commercial Bank of Kuwait.

Changes in the IT infrastructure have materialized this year. We have the network revamp where we are replacing all network devices with a more advanced technological and robust solution. System downtime due to network issues are no longer significant. Downtime has been limited to a certain degree and system availability is now targeted to 99.9 percent.

A new data center is being built to house our servers, network, security devices for an enhanced stable system and secure environment.

ITD will continue its efforts and cooperation with the business areas so as to move forward and upgrade the bank’s systems with the objective of providing customers with a state-of-the-art banking experience.

Operations Division

The Operations Division in the Bank is assigned to carry out all the day to day transactions of the Bank. Operations in the banking sector is a department set aside to tackle and render direct and indirect services of the Bank to its numerous customers.

Operations Division had a remarkable year 2019, marked by several achievements and attainment of a number of key milestones. The division has been successful in managing overall operational efficiencies through ongoing optimization, workflow streamlining, enhancement in monitoring and control processes, thereby providing improved service to both internal and external customers.

Trade Service Department
Trade Service department is a highly specialized technical unit within Operations & the staffs are well equipped to handle different type of trade transactions due to planned rotation, training & skill enhancement. Department has successfully automated bi-monthly regulatory report, other internal reports and external customer's / third party intimation.

Treasury & Investment Operations Department
Treasury & Investment Operations Department has restructured several of its internal processes to reduce Turnaround Time (TAT), automation of treasury control processes and migrated various reports to Bank's core banking system.
The department has also taken the initiative to depend on soft copies of all internal reports for reference and audit purpose instead of hard copy reports.

Operation Administration Department
The department provides specialized back office support required by branches and also supports the organisation with procedure documentation and updation of re-engineered processes. The department consists of Operation Processing Control Unit, Central Processing Unit, Record Management Unit and Procedure Documentation Unit.
The department has managed to automate and centralize several activities which were manually managed at branches & improved transaction controls through the use of CDM, All in one and FX web based systems reducing the operational pressure on branches to focus on customer service and cross selling.

Retail Credit Admin & Processing Department
The department has made remarkable progress in automation of sending reminders to customers through SMS from core banking system for follow up on submitting documents as per Central Bank of Kuwait (CB) requirements and for closed loans.

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

The department initiated process overhaul for cash operation unit to move towards a paperless environment.

Loan Follow Up and Collection Department.
The department introduced an execution unit to execute legal action on defaulting customers.
Execution unit has a specialized litigation team to expedite the process.

Virtual Banking Unit
Virtual Banking Unit is connected to every CBK branch in Kuwait to service retail and corporate customers for services involving accounts, deposits, loans, credit cards, inquiries, certificates, etc.
The unit is fully capable and has all necessary resources to provide the services that any branch offers.

Contact Center
Contact Center continued its efforts to assist customers with CBK mobile application services, live chat service that has video and audio options along with co-browsing and voice mail service through the call center Interactive Voice Response (IVR).

Human Resources Division

In our mission to grow and invest in the talented individuals of the Kuwaiti Workforce, the Human Resources Division has implemented the following strategies to achieve short and long-term goals in 2019 and was able to achieve 74% Kuwaitization ratio as of end of 2019:

Contribution In Career Fairs:

The Recruitment Department has participated and sponsored major nationalization focused career fairs in 2019 by collaborating with all the top universities and educational facilities. In cooperation with government institutions like the MGRP along with local governmental & private educational institutions, such as KU, PAAET, AUM, ACK, AUK and GUST, we're enabled to attract new talent, prove ourselves as an employer of choice, and a socially responsible organization that rewards educational achievements of our nationals.

Flexible Working Hours:

We provided flexible working hours within CBK to accommodate students who are interested in gaining professional experience within the Bank. Different work schedules and part-time job opportunities are offered to local university students in some divisions / departments where applicable and without compromising on the Bank's workflow.

Corporate Social Responsibility:

As part of our corporate social responsibility, and our support to individuals with special needs within the Kuwaiti workforce, we have managed to provide job opportunities to candidates to enable them to be introduced to the working environment in the banking sector. Such experience has helped them acquire new skills and develop existing ones. CBK values corporate social responsibility and maintains it as a priority when it comes to executing recruitment plans for the year.

Talent Management

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

Thaber E-Learning Portal

- **AML Refresher Session**
  In an effort to further enhance THABER's existing e-learning programs; an AML Refresher session has been designed to provide existing employees with an update on all AML policies and procedures.

- **Security Measures**
  In order to improve employees' awareness of the various measures related to Security; L&D designed - in collaboration with a third party specialist - an animated infographic to address the related measures and procedures in an appealing and creative way. The video will be communicated to all employees and uploaded at a later stage on THABER portal in Q1 2020.

- **Cyber Security Awareness**
  In addition and in order to advocate a blended learning approach, L&D launched the "Cyber Security Awareness" E-learning Session on its e-Learning portal to Board Members to get them familiarized with the latest defense techniques related to Cyber Attacks.

- **Customer Protection Guide**
  To enhance the Bank's staff members awareness of customers' rights and obligations in terms of the Banks' provided services and in compliance with Central Bank instructions; HRD developed and uploaded the "Customer Protection Guide" e-learning session on CBK's e-learning portal "THABER".

- **Professional Certifications**
  In 2019, 61 CBK employees completed related IBS certifications compared to 14 in 2018. Moreover, the later succeeded in achieving the top ranks in most of the certifications offered by the institution.

- **Induction Programs & Orientation Sessions**
  Induction Programs and Orientation Sessions were organized throughout the year to facilitate the integration of new hires in the Bank and provide them with an overview on CBK's code of conduct, history & main activities.

- **In-house Programs**
  Customized training programs were organized in CBK's Training Academy throughout 2019 with a 63% increase in the number of attendees from the previous year.

HRMIS

Through effective system enhancements in 2019, HRMIS has improved Performance Management systems, organizational communication, employee involvement, and increased skills of HR operations in line with the business strategy to achieve rapid adaptation to changing needs. HRMIS has enhanced productivity related to financial management through payroll processing tasks and benefited HR administration.

The department has upgraded Employee Self-Service, Time Attendance Management, Recruitment and Training modules.

Internal Audit Division

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

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

IAD endeavors to establish solid and cooperative relationships with different Business areas across CBK maintaining the balance between enhancing Business Controls and give required support that would benefit the Business processes as well where it plays the role as Internal Consultant & Advisory.

With the bank digital transformation, Internal Audit is developing innovative approaches to transform its function to agile, multi-skilled and technology-enabled operations. This helps in recognizing emerging risks and changes to the bank's risk profile quickly and efficiently.

IAD always maintains transparent relationships with all CBK Business areas and Stakeholders during all audit phases through different meetings and discussions from the start of the planning phase till the reporting of audit findings phase.

Internal Audit Management develops the staff and supports them to enhance their skills in all banking areas including related consulting role to become a significant component of internal audit work.

Compliance and Corporate Governance Division

Compliance & Corporate Governance Division is an independent function with a direct reporting line to the Board Corporate Governance Committee. The Division has a pivotal role in monitoring & verifying the Bank's compliance with local regulatory instructions & requirements pertinent to the Bank's business activities along with assisting the Bank in avoiding risks that may arise from non-compliance with the same. Further, CCGD is a point of reference within the Bank as it reacts to all queries related to compliance with regulatory regulations and strengthens its cooperation with all the Bank's divisions & departments and also acts as a liaison between the Bank and regulators in relation to the instructions issued on compliance and any related issues, in addition to its efforts & endeavors to enhance the compliance and governance environment & culture for all staff members in the Bank. CCGD is responsible for preparing annual reports on compliance and corporate governance framework within the Bank. Such reports are usually presented to the Board Corporate Governance Committee which will in its turn present the same to the Board of Directors. The Division undertakes its duties & functions through both Compliance Department and Corporate Governance & Disclosure Department.

Compliance Department

Compliance Department is responsible for monitoring the Bank's compliance with the local regulatory instructions & requirements related to the Bank's business activities so that the Bank can avert risks that may result from non-compliance with the same. For this purpose, Compliance Department undertakes the following:

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

Corporate Governance & Disclosure Department

Corporate Governance & Disclosure Department is responsible for verifying the Bank's compliance with the Central Bank's instructions on Corporate Governance principles as well as the rules & controls contained in Corporate Governance Manual. The Corporate Governance rules cover disclosure & transparency standards where the Bank endeavors to strictly comply with such standards as per the instructions of the Central Bank of Kuwait, Capital Markets Authority and Boursa Kuwait. The Corporate Governance & Disclosure Department also conducts regular review of the Bank's Corporate Governance & disclosure framework. The Department is tasked with the following duties:

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

During the year 2019, Compliance and Corporate Governance Division reacted upon some new requirements, including the following:

- The updated & amended instructions dated 14/5/2019 issued by the Central Bank of Kuwait in respect of Anti Money Laundering & Combating the Financing of Terrorism.
- The updates & amendments introduced to Corporate Governance rules & principles such as the changes these instructions introduced to the structure of board of directors and the board committees by adding independent members to the board of directors structure, and this will accordingly require amendment of the Bank's Articles of Association as well as bylaws of the Board of Directors and the Board committees and other related issues.
- The Capital Markets Authority's instructions and Boursa Kuwait's rules issued during the year with regard to disclosure requirements, General Assembly Meetings and corporate actions.

Legal Division

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

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

The Legal Division managed, owing to the consolidated efforts & successful cooperation among its diverse departments on one hand and the various divisions of the Bank, to win significant legal cases where legal judgments were issued in favor of the Bank during 2019 and which will contribute in strengthening the Bank's legal status and financial position in the coming period.

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

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

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

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

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

Corporate Communications Division

Commercial Bank of Kuwait recognizes that effective corporate communication between the Bank and Kuwaiti society is very vital for achieving the aspired sustainable development. Drawing on this, year 2019 saw the Bank's Corporate Communications Division continuing its endeavors to demonstrate the Bank's consolidated efforts towards social responsibility through sponsorship & participation in the diverse social activities and the different humanitarian & philanthropic events and this, in its turn, contributed in underpinning the Bank's corporate image and accentuating its social responsibility towards the society in which it operates.

In this context, during 2019, the Bank has consistently enhanced its social role to contribute in the sustainable development of the Kuwaiti society by offering sponsorship and support to the diverse social activities & events organized and arranged by civil society institutions, i.e. the six Governorates of Kuwait where such cooperation has yielded a great success and was positively reflected on the social activities organized by Kuwait Governorates for their inhabitants under the Bank's sponsorship.

Within its endeavors to participate in the different events & activities that benefit all society segments, particularly the physically challenged segment, the Bank, through Corporate Communications Division, offered support to Marathon "I CAN" which was organized by the Technical Guidance for Brownies & Girl Guides - the Public Administration for Private Education. This support came within the Bank's mission aiming to support the wide-ranging social responsibility programs & activities and out of its belief in the importance of communicating proactively with all society segments, particularly the physically challenged segment. Furthermore, and in cooperation with "Art Space", the Bank organized a fun day to Kuwait Center for Autism's kids who drew and colored Kuwait flag during the activities of this day. This move came to reflect the Bank's endeavors to communicate with the children with special needs and draw smile on their faces and bring happiness to their hearts.

Recognizing that environment protection is a main component of its Corporate Social Responsibility programs, the Bank organized an environmental awareness campaign under the title "Beaches Cleanup" in cooperation with the Green Hands Environmental Team. This Campaign was meant to keep Kuwait's beaches clean and free of waste & debris and protect them against any harmful acts or negative behavior with a view to safeguard Kuwait environment and the various animal species. This campaign came out of the Bank's belief in the importance of organizing & participating in all activities related to environment conservation and raising awareness for environment protection as a main pillar of the aspired sustainable development plans.

On the occasion of the National Day and the Liberation Day of Kuwait, the Bank illuminated & decorated its Head Office and branches in celebration of both occasions. The Bank, through Corporate Communications Division, visited the police and traffic officers who streamline traffic flow in the Arabian Gulf Street and distributed gifts to them in recognition of their commendable efforts for ensuring the safety and security of nationals & residents during their celebrations of Kuwait National Days. Furthermore, the Bank's Corporate Communications Team was present at Kuwait International Airport (Arrivals) to welcome Kuwait's visitors during the National Days by distributing flower bouquets & commemorative gifts to them. This gesture was highly commended by Kuwait's visitors who happened to arrive to Kuwait within its celebrations of the National Days.

Within the humanitarian & philanthropic activities arranged during the Holy Month of Ramadan, the Bank, through Corporate Communications Division, sponsored a number of philanthropic & humanitarian activities that aimed at supporting all initiatives related to the Holy Month of Ramadan. In this context, Corporate Communications Division arranged a visit to the patients hospitalized in Al Razi Hospital to congratulate them on the advent of the Holy Month of Ramadan and share them the joy of this blessed Month. The Bank also arranged a visit to Children Ward at Physical Medicine & Rehabilitation Hospital to rejoice Gergean with the children residing there and the children visiting it for medication purposes.

In a new gesture, the Bank held Iftar Banquet for both the officers of the Public Department of Central Operations - Receive Notifications Room 112 and Kuwait Police Helicopter Wing officers at Sheikh / Nawaf Al-Ahmad Air Base - Ministry of Interior in recognition of their consolidated efforts for ensuring security of nationals & residents at all times particularly during the peak hours in the Holy Month of Ramadan.

Furthermore and during 2019, the Bank continued the activities of “Hawwen Alaihom” Campaign targeting the road cleaners and construction workers by arranging visits in different occasions to this segment at their work locations on the diverse occasions in recognition of their efforts in preserving the environment and keeping it clean & clear of litters. With the Advent of the Holy Month of Ramadan and for the fourth consecutive year, the Bank launched its campaign “Your Pre-Dawn Meal from the Bank / Suhoorkom Alina” by distributing pre-dawn meals “suhoor” to road cleaners and construction workers at the time of “suhoor”.

The Bank launched “Ya Zeen Turathna” Campaign, which is closely correlated to Commercial Bank of Kuwait, for the eighth year in row following the great success of the campaign over the past years and the proactive interaction of the public with the activities of this campaign. The Campaign included a number of the heritage activities that were arranged for the public and visitors in the renowned shopping malls.

The Bank also continued to issue its annual calendar for 2019 which mirrored & reflected various scenes from the history & heritage of Kuwait during the seventies which was a period of prosperity in Kuwait history. It is known that this era stood as a testimony of a significant resurgence Kuwait saw during the past decades in cultural, art, economic and educational areas.

The Bank’s Corporate Communications Division constantly endeavors to activate all means of communication with its employees, customers and the public via social media networks (Instagram, Facebook, Twitter and Snapchat). Furthermore, and through such social media networks, the Bank posts health awareness tips along with information about the Bank’s activities & events, programs and discounts & offers provided to its customers as well as the other events that are of interest for the Bank social sites’ followers.

Given the diversity of the Bank’s activities in the area of social responsibility, the Bank, through Corporate Communications Division, issued a booklet highlighting all societal activities & events organized and patronized by the Bank during the year 2019.

Corporate Governance Rules and Systems

Introduction

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

During the year 2019, the Bank continued to enhance its policies, procedures and practices with a view to effectively apply the instructions & standards pertaining to Corporate Governance rules to safeguard the Bank, its rights and the rights of its shareholders, depositors, creditors, customers, staff members and stakeholders. The Bank has taken the necessary procedures, and updated bylaws and policies applicable at the Bank and ensure they are in compliance with the Central Bank of Kuwait's requirements.

Further, the Bank embarked on the application of the updated instructions dated September 2019 issued by the Central Bank of Kuwait with regard to Corporate Governance rules & principles. As such, the Bank drew up a timeline plan outlining the procedures that will be taken to adapt with the updated instructions within the set up timeframe for formally applying these instructions. However the Bank is in the process of completing such plan.

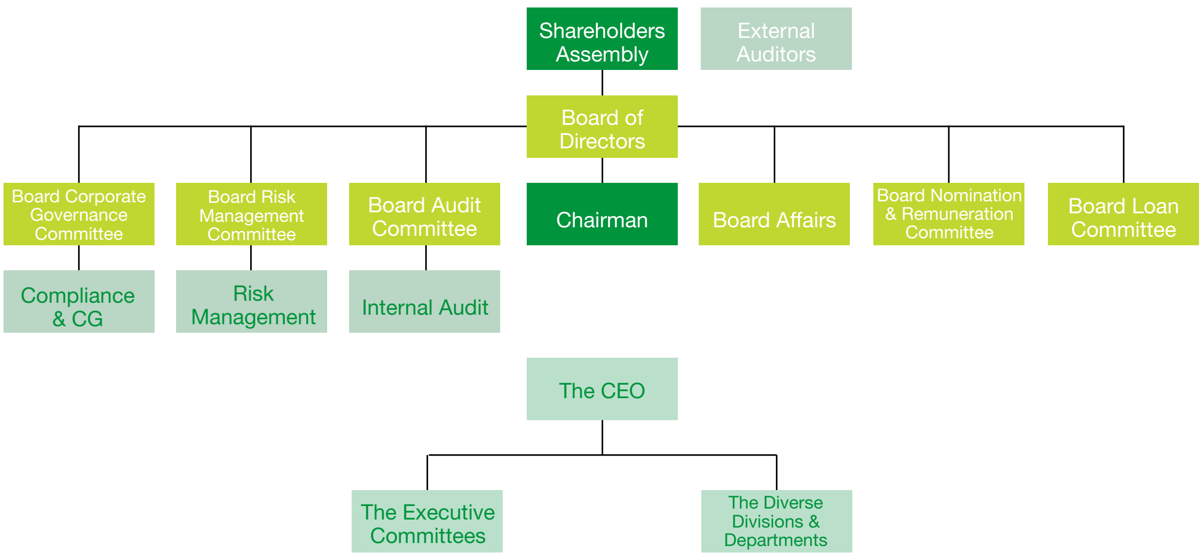
The Bank endeavors to adopt the utmost degree of transparency and discloses all material and information related to the Bank by disclosing the same according to the instructions issued by Capital Markets Authority and Boursa Kuwait. Furthermore, the Bank posts this information on its website which also contains the approved Corporate Governance manual in the Bank.

Major Shareholders

Presented below are the shareholders with a percentage exceeding 5% of the Bank's share capital as at the end of 2019:
Al Sharq Holding Company 23.221%

Corporate Governance Structure

The Bank has established a well-defined Corporate Governance structure with a view to have in place adequate & effective Corporate Governance standards & practices for the Group considering that it will include proper ways of effective supervision tools on the Group's business to advocate excellence in Corporate Governance. This structure is regularly reviewed to ensure that it remains appropriate and reflect any developments that may arise in Corporate Governance area. The following hierarchy illustrates the general structure of Corporate Governance framework.



Board of Directors and its Main Responsibilities & Key Achievements:

The Board of Directors elected through secret ballot for a term of three years by the shareholders in the General Meeting dated 31/3/2018 is composed of 10 Members. The Board of Directors, collectively, has various academic qualifications, professional experience and specialized skills and possesses adequate knowledge and expertise in finance, accounting, lending, banking operations, strategic planning, Corporate Governance, risk management, internal controls, legal & regulatory environment. Furthermore, the Board of Directors is always aware of local, regional and global economic developments.

A synopsis on the Bank's Board Members:

Sheikh / Ahmad Duaij Jaber Al Sabah - Chairman

Sheikh / Ahmad held a Bachelor of Science in Finance; year 2000 / Bentli University, USA and Master in Management 2008 / Kuwait Maastricht Business School.

Since 31/3/2018 Sheikh / Ahmad has chaired the Bank's Board of Directors and he is the Chairperson of the Board Loan Committee.

Prior to holding the position of Chairman of the Board in Commercial Bank of Kuwait, Sheikh / Ahmad has held the position of the Vice Chairman of the Bank during the period from 4/4/2015 to 31/3/2018, and a Board Member during the period from 29/4/2012 to 3/4/2015.

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

Sheikh / Ahmad held the following positions:

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

Ms. Anoud Fadel Ibrhim Al Hathran - Vice Chairman

Ms. Anoud obtained a Bachelor degree in Accounting 2002 / Kuwait University and Master of Business Administration 2007 / Kuwait Maastricht Business School. Ms. Anoud has gained various experiences through her work with the following entities:

- Senior Manager, Local and Gulf Investments in Global Investment House during the period from 2002 to 2007.
- Deputy CEO, investment funds and customers' portfolios in Securities Group Company during the period from 2008 to 2016.

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

- National International Holding Company during the period from 2006 to 2007.
- The Kuwaiti Qatari Real Estate Development Company during the period from 2009 to 2016.
- Commercial Bank of Kuwait during the period from 7/4/2010 to 22/3/2011, then she held the position of Vice Chairperson during the period from 23/3/2011 to 29/4/2012.
- Educational Holding Group Company during the period from 2016 to 2017.
- Kuwaiti Saudi Pharmaceutical Industries Company during the period from 2009 to July 2018.
- Tijara & Real Estate Investment Company since 2016 until present.

In addition to occupying the position of a Board Member once again in the Bank's Board of Directors and after being elected as Vice Chairman since 31/3/2018, Ms. Anoud is the Chairperson of Corporate Governance Committee and is also a Member in the Board Loan Committee.

Mr. Abdulrahman Abdullah Abdulrahman Al Ali

Mr. Abdulrahman held a Bachelor of Mechanical Engineering 1975 and Master in Business Administration / Finance & Investment 1979 / Weskans University, USA.

Mr. Abdulrahman is an experienced board member offering 30 years of experience in investment and projects financing mostly acquired during his work at Gulf Investment Corporation, where he held the position of Senior Vice President, besides being a Board Member in Industrial Bank of Kuwait during the period from 2010 to 2011 and a Board Member in United Steel Industrial Company during the period from 2001 to 2014.

He is currently a Member in the Ethical Review Committee - Dasman Diabetes Institute since 2010.

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

Mr. Bader Sulaiman Abdullah Al Ahmed

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

- Accounting Controller / Civil Service Commission (1983 - 1985).
- Member of the Saudi Organization for Certified Public Accountants in Saudi Arabia (Riyadh) No. 212 on 14/9/1407H.
- Analyst of Companies' balance sheets / Kuwait Stock Exchange (1985 - 1986).
- Deputy Manager, Catering Department / Kuwait Aviation Service Company (1986 - 2002).
- General Manager, United Poultry Company (2007 - 2008).
- Manager, Safway General Trading & Contracting Company since 1989 until present.
- Vice Chairman of Commercial Bank of Kuwait during the period from 7/4/2010 to 11/5/2010.
- Chairman of Commercial Bank of Kuwait during the period from 11/5/2010 to 23/3/2011.
- Board Member in Commercial Bank of Kuwait during the period from 23/3/2011 to 29/4/2012.
- Board Member in Securities Group Company from 2000 to September 2019.

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

Dr. Arshid Abdulhadi Zaid Mubarak Al Houri

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

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

Dr. Arshid was also a Board Member in Tijari Investment Company - CBK Capital from 2010 to 2013 and Vice Chairman of Yiaco Medical Company and he is now the Chairman of this Company. In addition, he was seconded for teaching in Kuwait University - College of Law during the period since 2012 until present.

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

Mr. Musaed Nuri Musaed AlSaleh Al Mutawaa

Mr. Musaed obtained a Bachelor degree in Business Administration from Suffolk University, USA, 1998. He was also a Fellow at Harvard University's Center for International Affairs.

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

- He is currently the Deputy CEO at MASS United Trading & Contracting Company.
- Former Vice Chairman and CEO - National Projects Holding Company.
- Selected among the short list of leaders who take part in World Economic Forum annual meeting in (Davos), and he was also honored as a Young Global Leader (YGL).
- Member of the Young Presidents' Organization (YPO) since 2004.
- Former Member of the Board of Directors of the Kuwait Society for the Handicapped.
- Banking experience obtained from working with a number of banks such as Banque Baring Brothers and FIM Bank.

In addition to his present position as a Board Member in Commercial Bank of Kuwait since 30/9/2014, Mr. Musaed is the Chairperson of Nomination & Remuneration Committee and is also a Member in the Board Loan Committee.

Mr. Hazem Meshari Khaled AlZaid Al Khaled
Mr. Hazem held a Bachelor of Science in Finance 1996 - American University, Washington, D.C. in addition to advanced training courses in accounting, credit and financial analysis.
Mr. Hazem possesses an excellent professional experience in management area at the level of board of directors as well as executive management which was acquired during his tenure in the following institutions:

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

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

Ms. Rasha Yousef Hussein Al Awadhi
Ms. Rasha held a Bachelor of Accounting & Auditing 1992 / Kuwait University. Ms. Rasha is also Certified Accountant, Certified Securities Trader, Arbitrator, Certified International Investment Analyst, Certified Investment & Derivatives Auditor and Certified Internal Auditor. She is a member of the Kuwaiti Association of Accountants & Auditors.
Apart from her higher academic qualifications & credentials, Ms. Rasha possesses long experience in investment field where she has occupied diverse positions including the following:

- Investment Officer in Kuwait Trading Contracting and Foreign Investment Company (KFTCIC) (from 1992 to 1996).
- Senior Officer in Kuwait Investment Company (from 1997 to 1998).
- Assistant Deputy Head - Operations / Global Investment House (from 1998 to 1999).
- Deputy Head - Operations / Global Investment House (from 2000 to 2006).
- Senior Vice Chairman - UNICAP Investment & Finance (Housing Finance Company (ISKAN) previously) from 2006 to 2019.
- General Manager - First Kuwaiti Educational Services Company from 2010 to 2019.
- General Manager - Al Reeyada International Educational Services Company from 2018 to 2019.
- Board Member in Iskan Oman Investment Company and Head - Audit Committee in the Company from 2008 to 2019.

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

- Board Member in the private schools union

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

Sheikh / Talal Mohammed Al Salman Al Sabah
Sheikh / Talal held a Bachelor of Science in Business Administration 2001 / American University, Washington, D.C. Sheikh / Talal is currently working in Securities Group Company and he was a Member in Board of Directors of the following companies:

- Gulf Glass Manufacturing Company (from 2005 to 2006).
- Refrigeration Industries & Storage Company (from 2003 to 2008).

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

Mr. Manaf Mohammed Ali Al Muhanna
Mr. Manaf obtained a Bachelor degree in Architectural Engineering, 1989 / Miami University - USA and Master in Projects Management, 1997 / Kuwait University. Mr. Manaf gained various experience during his tenure whether at the level of board of directors or executive management in the following entities:

- Ministry of Defense - Military Engineering - Private Projects Controller (allied forces projects) (from 1992 to 2006).
- Gulf Dredging & General Contracting Company (from 2006 to 2018).
- Board Member in Oula Fuel Marketing Company (from 2009 to 2010).

- Board Member in Gulf National Holding Company (from 2010 to 2017).
- Board Member in Gulf Franchising Holding Company (from 2010 to 2018)
- The CEO of Platinum United Company since 2003 until present.

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

Fundamental Duties & Responsibilities of the Board of Directors

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

The Board of Directors emphasizes the importance of applying Corporate Governance by creating corporate values culture among all staff members. This is implemented by working closely to achieve the strategic objectives, improving performance levels and adhering to laws and regulatory instructions, particularly Corporate Governance rules & systems. As such, the Board of Directors has in place a set of bylaws, policies and reporting system and endeavors to effectively apply the same under a corporate culture framework not only in compliance with the regulatory instructions.

Key Achievements of the Board of Directors for the year 2019

- Approved the Bank's strategy (Shaping the Future 2024).
- Conducted regular review of risk management strategy reports.
- Reviewed and approved the Bank's quarterly & year-end financial statements.
- Continuous review of the Bank's organizational structure along with approving the amendments introduced to the same, as well as review of the structure of both Corporate Governance & Board of Directors.
- Conducted review of Capital Adequacy and stress testing reports as well as risk management's regular reports.
- Conducted review of risk management division reports regarding Capital Adequacy for subsidiary.
- Reviewed and approved the stress testing methodology.
- Approved the Bank's budget.
- Reviewed the external reports related to IT & Information Security assessment and related action plan.
- Approved the updates & amendments introduced to the bylaws of the Board of Directors and the related Board committees.
- Approved the updates & amendments introduced to Corporate Governance related policies and requirements.
- Conducted review of the summary prepared on the updates introduced to instructions related to Corporate Governance rules & systems, and approved a time schedule outlining the procedures the Bank will take to adjust & regularize its processes within the timeframe specified for applying such instructions officially.
- Reviewed and approved the nomination conditions & requirements for the board membership and identified the independent Members from the existing Board Members.
- Approved the updates introduced to risk management policies applicable at the Bank.
- Approved the updates introduced to the diverse policies governing the Bank's business activities.
- Approved the performance evaluation related to the Board of Directors, the Board Members and the CEO and updated the appraisal performance mechanism.
- Approved the key performance indicators related to Executive Management Members and updated the performance appraisal mechanism related to staff members.
- Conducted review of the regular reports pertaining to the Bank's diverse business activities.

- Conducted review of the regular reports pertaining to duties & functions of the Board of Directors and the Board committees.
- Reviewed and assessed the performance of the credit & investment portfolios and loans.
- Followed up the observations & violations detected by regulators along with taking the necessary action in this regard.
- Reviewed the External Auditor's Internal Control Review (ICR) report for the year 2018 and follow-up reports prepared in this regard.
- Reviewed the Management Letter prepared by the External Auditors.
- Approved Succession Planning.
- Approved Business Continuity Plan and the related testing report.

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

Within the process of enhancing the principles of Corporate Governance at the Bank, the Bank formed five Board Committees to enhance the Board supervision on the major operations at the Group level with a bylaws for each committee outlining its roles & responsibilities and governing its process covering the preparation of regular reports within the scope of each committee's roles & responsibilities and the reports submitted to the Board of Directors and the follow-up reports presented to the Chairman of the Board. Four committees out of the above five Committees are assigned to assist in overseeing the application of Corporate Governance's different aspects in addition to the Board Loan Committee which is concerned with all issues related to the credit facilities portfolio. These committees are as detailed below:

Board Corporate Governance Committee	
Composition	Ms. Anoud Fadel Al Hathran - Chairperson, BCGC Mr. Hazem Meshari Al Khaled Ms. Rasha Yousef Al Awadhi
Main Roles & Responsibilities	• Prepare and update Corporate Governance Manual to be approved by the Board of Directors. The Manual shall include, as a minimum, the Central Bank of Kuwait's rules and instructions on Corporate Governance. The Committee also ensures that a brief manual of the main rules & controls contained in the above instructions is posted on the Bank's website. • Review the annual reports related to Compliance & Corporate Governance Division with a view to follow up the application of the rules and controls contained in the Corporate Governance Manual, monitor Corporate Governance practices at the Bank & raise the required proposals for updating the same, follow up the extent to which subsidiaries are in compliance with the applicable Corporate Governance requirements and present such reports to the Board of Directors for approving the recommendations & proposals contained therein. • Ensure that the Corporate Governance report contained in the Bank's annual report outlines the extent of the Bank's compliance with the Corporate Governance Manual & instructions along with clarifying the reasons for non-compliance cases - if any. • Propose / review any amendment to be introduced to the Bank's Articles & Memorandum of Association particularly when it is related to Corporate Governance rules and principles. • Propose / review the duties and responsibilities of both the Chairman and the CEO with due observation of the segregation between both positions and the independence of the same. • Review the Board of Directors' Bylaws and the various Corporate Governance policies such as code of conduct, the insider trading policy, transactions with related parties policy, conflict of interest policy, disclosure & transparency policy and whistle blowing policy and other bylaws & policies and Corporate Governance requirements, as per the regulatory instructions.
Key Achievements in 2019	• Managed to conduct ongoing review of the Bank's Corporate Governance Manual and verify that the Bank is in compliance with the contents of this manual. • Conducted review of the annual reports related to the Bank's Compliance & Corporate Governance for the year 2018 and which outlines the extent to which subsidiaries are in compliance with Corporate Governance requirements and reporting the same to the Board of Director for review along with raising the required recommendations in this regard. • Conducted review of the updates made to insider trading policy. • Conducted review of the updates made to conflict of interest policy. • Conducted review of the updates made to code of conduct. • Conducted review of the proposed amendments to certain articles of the Bank's Articles and Memorandum of Association. • Reviewed the updated instructions issued by the Central Bank of Kuwait under its circular dated 10/9/2019 with regard to Corporate Governance rules & principles. • Conducted review of the proposed time schedule which outlines the procedures intended to be taken by the Bank to adjust & regularize its processes in line with the updated instructions related to Corporate Governance rules & systems.

Board Audit Committee	
Composition	Mr. Bader Sulaiman Al Ahmad - Chairperson, BAC Dr. Arshid Abdulhadi Al Houri Mr. Hazem Meshari Al Khaled Ms. Rasha Yousef Al Awadhi
Main Roles & Responsibilities	• Review the scope, outcomes and the sufficiency of internal & external audit functions within the Bank. • Review accounting issues that may have a significant impact on the Bank's financial statements. • Review the Bank's internal control systems and ensure that human and other resources dedicated to handle jobs related to regulatory issues are adequate and sufficient. • Oversee and support independence of Internal Audit function. • Review the Bank's financial statements before presenting the same to the Board of Directors and ensure adequacy of provisions. • Verify the extent of the Bank's compliance with the laws, resolutions and regulatory instructions pertinent to the Bank's business and which are issued by the competent authorities in the country. • Assigned the duties & responsibilities pertaining to internal & external audit and internal control systems.
Key Achievements in 2019	• Conducted regular review of quarterly and year-end financial statements. • Managed to review and follow up the External Auditor's ICR report for the year 2018 along with monitoring the follow-up reports prepared in this regard. • Conducted review of the Management Letter prepared by the External Auditor. • Raised recommendations for re-appointing the External Auditors and reviewed the related contractual terms & conditions. • Engaged external audit firms to examine internal control systems and verify the Bank's compliance with the application of Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) Agreement. • Reviewed the findings of the inspection conducted by the Central Bank of Kuwait following the receipt of the related reports along with monitoring the same. • Review and follow up the reports prepared by Internal Audit Division. • Following up the implementation of the approved 2019 audit plan and the latest updates on the same. • Appraised the performance of Chief Internal Auditor and conducted review of appraisal performance mechanism and form. • Conducted review of 2020 internal audit plan. • Conducted review of the updates made to internal audit charter. • Conducted review of the updates made to appointment, rotation and independence of External Auditors policy. • Conducted review of the updates made to the Board Audit Committee's bylaws.

Board Risk Management Committee	
Composition	Mr. Abdulrahman Abdullah Al Ali - Chairperson, BRMC Mr. Bader Sulaiman Al Ahmad Sheikh / Talal Mohammed Al Sabah Mr. Manaf Mohammed Al Muhanna
Main Roles & Responsibilities	• Review the Bank's present and future risk appetite and strategy, before getting it approved by the Board of Directors and provide advice to the Board of Directors in this respect. • Review the Bank's risk management policies before submission to the Board of Directors for approval. • Oversee the Executive Management's implementation of the risk management strategy & policy and lay down & develop stringent & extensive mechanisms & procedures to manage the different types of risks. • Review risk reports related to subsidiaries and take the necessary action in relation to such reports and review the policies associated with such risks prior to presenting the same to the Board of Directors. • Review regular risk reports submitted by Risk Management Division on the Bank's exposures and its adherence to the prescribed various risk limits, capital adequacy calculations, economic capital assessment and stress testing results.
Key Achievements in 2019	• Conducted regular review of risk management strategy reports. • Conducted review of stress testing methodology. • Managed to conduct review on capital adequacy and stress testing related reports as well as Risk Management Division's regular reports. • Conducted review of the regular reports related to Key Risk Indicators (KRIs). • Managed to review the analysis of Corporate Banking, International Banking Services, retail lending and investments portfolios. • Conducted review of the risk reports related to subsidiaries. • Managed to review the updates made to risk management policies before submission to the Board of Directors for approval. • Conducted review of Information Security framework. • Conducted review of business continuity plan & policy and related testing report. • Conducted review of Risk Management Division's organizational chart. • Conducted review of the updates made to the Board Risk Management Committee's bylaws.

Board Nomination & Remuneration Committee	
Composition	Mr. Musaed Nouri Al Saleh - Chairperson, BNRC Dr. Arshid Abdulhadi Al Houri Mr. Manaf Mohammed Al Muhanna
Main Roles & Responsibilities	• Provide recommendations to the Board of Directors regarding the nominees for board membership pursuant to the Central Bank of Kuwait's rules and instructions issued in this regard. • Conduct an annual review for the necessary and appropriate training needs for board members to enhance the skills & competencies for the Board Members as required along with providing recommendations to the Board of Directors in this regard. • Conduct an annual appraisal of the Board of Directors' overall performance and performance of each individual Board Member. • Ensure that the Board Members are always cognizant of the up-to-date issues related to banking business through the proper means. • Review / Update the Bank's remuneration policy on an annual basis or as per the Central Bank of Kuwait's instructions or based on the Board of Directors' request and provide recommendations to the Board of Directors regarding any amendments/updates to be made to this policy noting that such amendments / updates may not be enforced unless approved by the Board of Directors. • Assess on annual basis the sufficiency and effectiveness of the remuneration policy to ensure that its related objectives are achieved. • Recommend to the Board of Directors the amount and description of the proposed remunerations of the CEO and his/her deputies & assistants (Top Executive Management Members) • Ensure that the remuneration policy and related practices at the Bank's financial subsidiaries and overseas branches (if any) are consistent with the remuneration policy applicable at the Bank and in line with the Central Bank of Kuwait's instructions on Corporate Governance rules. • Conduct an annual independent review of the remuneration policy noting that this review can be conducted through the Bank's Internal Audit Division or an external advisor.
Key Achievements in 2019	• Appraised the performance of the Board of Directors and performance of each individual Board Member and conducted review of performance appraisal forms. • Conducted review of the proposed 2019 training plan for the Board Members. • Conducted review on the updates made to the nomination conditions & requirements for the board membership within the Bank and also managed to review the structure of the Board of Directors. • Managed to conduct regular review of the Bank's remuneration policy before submission to the Board of Directors for approval. • Conducted review of the succession planning. • Conducted review of Internal Audit report on the remuneration policy. • Conducted review of the regular reports & information submitted by Human Resources Division. • Conducted review of the performance appraisal mechanism related to the Board of Directors and the Board Members. • Managed to review the updates made to the performance appraisal mechanism related to staff members. • Conducted regular review of the remuneration policy related to subsidiary. • Conducted review of the issues related to identifying some independent Members from the existing Board Members.

Board Loan Committee	
Composition	Sheikh / Ahmad Duaij Al Sabah - Chairperson, BLC Ms. Anoud Fadel Al Hathran Mr. Abdulrahman Abdullah Al Ali Mr. Musaed Nuri AlSaleh Sheikh / Talal Mohammed Al Sabah
Main Roles & Responsibilities	• Review, amend and approve the credit policy. • Review, amend and approve country credit limits and the prescribed counter parties' limits for banks • Review, amend and approve the foreign exchange limits (FX Limits). • Review, amend and approve to extend, renew and reschedule the credit facilities. • Give the approvals pertaining to credit facilities as per the Bank's credit policy and the applicable legislations & relevant Central Bank of Kuwait's instructions.
Key Achievements in 2019	• Managed to review and amend the credit policy. • Managed to review and approve the credit facilities within the limits prescribed by the Board of Directors. • Monitored the position of the Bank's credit portfolio and related risks.

Meetings of Board of Directors & its Committees and Frequency of Participation in such Meetings

The below table presents the number of meetings of the Board of Directors and other related Board Committees during the year 2019 along with an outline of the frequency of participation by the Board Members in such meetings.

Total Number of Meetings Held During 2019	BOD Meetings	BCGC	BRMC	BAC	BNRC	BLC	Total Number of Meetings Attended by Members
	13	4	9	9	4	45	84
Board Members	Number of Meetings Attended by the Board Members						
Sheikh/ Ahmad Al Sabah	13					41	**54**
Anoud Al Hathran	10	4	1*			36	**51**
Manaf Al Muhanna	12		7	1*	4	2*	**29**
Abdulrahmn Al Ali	12		9	1*		41	**63**
Bader Al Ahmad	9		6	7			**22**
Dr. Arshid Al Houri	10		1*	8	3	1*	**23**
Musaed Al Saleh	7				3	27	**37**
Sheikh/Talal Al Sabah	9		5			25	**39**
Rasha Al Awadhi	12	4	1*	9			**26**
Hazem Al Khaled	5	1		4			**10**

Remarks:
* Alternate Member for getting the quorum present.

In this context, we indicate that the meetings of Board of Directors & other board committees held in 2019 came in line with the Corporate Governance rules issued by the Central Bank of Kuwait and commensurate with the bylaws governing the roles & responsibilities of the Board of Directors and its related committees in terms of the number & frequency of meetings, the quorum and the issues reviewed and discussed by the Board Members.

Evaluation of the Board of Directors' Performance

In implementation of Corporate Governance rules, the Board Nomination & Remuneration Committee, through self-assessment methodology under a set of the forms & indicators applicable in this regard, evaluate the performance of the Board of Directors and all Board Members on an annual basis. This evaluation is presented to the Board of Directors for review & approval of the same and for taking up the required recommendations in this regard with a main objective to enhance professionalism & credentials of the Board of Directors and the Board Members in all areas associated with the Board responsibilities and to boost the required development and training aspects for the Board Members. The evaluation outcomes were positive with regard to the performance and functions of the Board of Directors.

Board of Directors' Confirmation on Adequacy of Internal Control Systems

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

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

Within the process of verifying the adequacy and effectiveness of the Bank's internal control systems to safeguard the Bank's assets and enhance its financial soundness and operations efficiency, the Board of Directors regularly monitors the policies, controls and internal control functions (such as Internal Audit /Risk Management Division / Compliance & Corporate Governance Division) to identify the areas that require improvement along with determining & addressing risks and significant issues. Further, internal control systems are one of the recurring items listed in the Agenda of the Board of Directors' meetings to discuss any updates or enhancement required on applicable controls along with rectifying any remarks raised in respect of the same.

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

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

External Auditor's Report on Adequacy of Internal Control Systems

As per the Central Bank of Kuwait's instructions, an independent External Auditor should be engaged to assess the internal control systems at bank. As such, and during the year 2019, the Bank has engaged the audit firm (Protiviti), after obtaining the Central Bank of Kuwait's approval, to assess the Bank's internal control systems for the year 2018. The audit firm's report prepared on 24/6/2019 stated that accounting records and other records and internal control systems of the Bank & its subsidiaries have properly been prepared and maintained in compliance with the requirements of the general guideline manual issued by the Central Bank of Kuwait on 14/11/1996 and the Central Bank of Kuwait's circular dated 17/1/2018 and that the raised findings have no substantial impact on the Group's fair presentation of the financial statements for the year 2018. The report, further, emphasized that the actions taken by the Group to address the said findings including those raised in previous years are satisfactory. Here below is the said report.

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

24 June, 2019

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 12 March 2019. We have examined the accounting and other records and internal control systems of Commercial Bank of Kuwait K.P.S.C.('the Bank') and the following subsidiaries of the bank for the year ended 31 December 2018:

- Al-Tijari Brokerage Company

We covered the following areas of the Bank:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January 2019 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning anti money laundering and combating financing of terrorism and the related instructions, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank and activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying

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with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

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

With the exception of the matters set out in the reports submitted to the Board of Directors of the Bank, and having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2018, and the materiality and risk rating of our findings, we report that:

a) The accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 14 November 1996 and letter issued by CBK on 14 January 2019.

b) The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2018, and

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

Yours faithfully,

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

Code of Conduct & Ethical Values

The Bank continues to apply sound Corporate Governance practices and further considers such practices as fundamental principles and significant components of its overall culture. During the year, the Bank has actively endeavored to enhance compliance with the code of conduct & ethical values and raise awareness of all staff members about such values.

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

Code of Conduct

The Code of Conduct approved by the Bank's Board of Directors is among the main aspects of Corporate Governance rules. The Board of Directors and Executive Management encourage and promote compliance with the Code of Conduct in the Bank's day-to-day business activities, among its relationships with employees, customers and other stakeholders.

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

Conflict of Interests

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

Transactions with Related Parties

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

Disclosure and Transparency

The Bank emphasizes the importance of the proper disclosure & transparency and considers it as a main tool that enables shareholders to exercise their rights. As such, the Bank endeavored to have in place an approved disclosure & transparency policy that applies to the information available with the Board of Directors and the Executive Management including the Bank's divisions / departments where such information must be disclosed to local regulators & other entities and the public. This policy mainly aims to establish a framework for disclosure by the Bank and ensure compliance with the rules and regulations issued by the Central Bank of Kuwait, Capital Market Authority and Kuwait Boursa with regard to disclosure and transparency.

Insider Trading

Within its endeavors to preserve confidentiality of the inside information related to the Bank & its customers and to prevent the misuse of such information, the Bank had in place a policy governing dealing in securities for the insiders, and this policy was enforced after being reviewed by the Board Corporate Governance Committee and approved by the Board of Directors. Furthermore, the Bank initiated some procedures, salient of which the Bank obtaining acknowledgments & undertakings from the insiders, determining the proper contractual arrangements with the other insiders and preparing a list of the insiders & updating the same on an ongoing basis along with preparing the required forms & records in this regard.

Banking Secrecy

The Board of Directors, Executive Management and employees endeavor to preserve and maintain confidentiality of information of the Bank, its customers and other stakeholders as per the provisions of the laws, rules and instructions issued by the Central Bank of Kuwait and other regulatory authorities. Further, the Bank consistently apply the required controls to ensure maintaining the confidentiality of information as per the policies approved by the Board of Directors in this regard and the internal control systems.

Information Security & Cybersecurity

In view of the increasing importance of Information Security in banking industry and the challenges related to the risks arising from the accelerating development of the modern technologies adopted in this area, the Bank actively endeavors to enhance & update information security systems and avert such risks through coping with the latest developments and practices. This is done by preparing & approving the policies & controls pertaining to Information Security & Cybersecurity and establishing an independent & specialized department equipped with qualified professionals & the required resources for implementing & monitoring such policies & controls and submitting the related reports to the Board Risk Management Committee which, in its turn, presents the same to the Board of Directors in addition to raising awareness about this area.

Whistle Blowing

The Board approved Whistle Blowing Policy is meant to enhance communication culture to the Bank's employees & others, provide means by which they can be involved in the protection of the Bank and its interests and to establish a mechanism that enable them to communicate any information that may come to their knowledge to the Bank regarding any transaction or behavior within the Bank that are suspected of violating or already violate the laws, regulatory instructions or internal policies or information about any other operations processed in the Bank in a manner that raises certain suspicions or concerns. This policy allows whistleblowers to directly communicate with the Chairman regarding such concerns and it also provides protection to those whistleblowers.

Customer Complaints

Within the Bank's endeavors to find the proper solutions for the complaints received from customers and to satisfy regulatory requirements, the Bank established specialized department, with direct reporting line the CEO, to deal with customers' complaints. This Department has in place approved policy & procedures governing its duties & responsibilities as well as the appropriate mechanisms for dealing with the complaints. Further, the Department oversees and ensures Customer Protection Manual is effectively applied in compliance with the instructions issued by the Central Bank of Kuwait in this regard.

Remuneration Policy

The Bank has in place an approved remuneration policy which covers all aspects and components of remunerations at the Bank. This policy is reviewed on an annual basis by the Board Nomination and Remuneration Committee before submission to the Board of Directors for approval. It is to be noted that this policy has been recently reviewed on 8/10/2019.

The main objectives of Remuneration Policy are as follows:

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

Important Features of the Remuneration Policy:

1. The Bank adopts remuneration policy that applies to all the employees of the Bank by having in place appraisal mechanism / job progression and through an approved structure for salaries & benefits that ensures positioning the employees in an appropriate manner.
2. Upon determining the salary scale and remuneration in the Bank, the policy takes into account the legal and regulatory requirements in addition to the rules and laws enforceable in Kuwait as well as the level & range of salaries and remuneration in local banking sector.
3. Remunerations according to the approved policy are divided into: fixed remunerations which include basic salary & fixed/ supplementary allowances & variable remunerations which are related to performance and depend on the Bank's financial performance and divisions / departments' role & efforts towards this performance in addition to the staff performance appraisal. The variable remunerations are divided into due remunerations (annual incentive) which may be paid to the staff members after the end of each financial year based on the Bank's financial performance and the staff performance appraisal during this year, and deferred remunerations which may be paid to the staff members over a maximum period of 3 years as per the mechanisms, percentages and categories specified by the Board of Directors and according to the regulatory requirements, "Claw back" is applied to the latter type of remunerations that can be adjusted or clawed back in exceptional cases such as weak/adverse financial performance of the Bank.
4. As per the Bank's Organizational Structure and Corporate Governance rules, Compliance & Corporate Governance Division, Risk Management Division and Internal Audit Division present their reports to the Board Corporate Governance Committee, the Board Risk Management Committee and the Board Audit Committee respectively. However, and from the management perspective, the three Divisions work with a direct reporting line to the Chairman of the Board who in his turn prepares the performance appraisal of heads of both Compliance & Corporate Governance Division and Risk Management Division while the Board Audit Committee prepares the performance appraisal of the Head of Internal Audit Division. As such, the Executive Management will not have any role in the performance appraisal or promotions or remunerations of the above mentioned heads.

Disclosure of Remunerations for the Year 2019

Board of Directors:

The Bank's Chairman and the Board Members' remunerations totaled KD 445,000 during the year 2019. The Board of Directors' remunerations are disclosed in the annual financial statements of the Bank which is in turn subject to the approval of shareholders at the General Assembly Meeting.

Top Executives:

Remunerations totaling KD 935,128 have been paid to five Top Executives who have received the highest remunerations during the year 2019. The above top five including the CEO and the Chief Financial Officer and added to them the Chief Internal Auditor and Chief Risk Officer.

Employees' categories:

Category	Number	Total Remunerations	Remarks
Top Executive & Supervisory Management	14	KD 1,463,318	Including 9 executives whose appointment is subject to the Central Bank of Kuwait's approval and their remuneration amounted to KD 1,109,340.
The officials with authorities for taking decisions on the issues related to risk exposures (Material Risk Takers).	4	KD 691,672	Including the CEO, Deputy CEO for Corporate & International Banking Division, Head of Treasury & Investment Division and Head of Retail Banking Division.
The officials in charge of Financial Control and Risk Management.	5	KD 588,290	Including Heads of Financial Planning & Control Division, Internal Audit Division, Risk Management Division, Compliance & Corporate Governance Division and Legal Division.

- Remunerations include basic salary and allowances such as grade allowance, transport allowance, supplementary allowance and other remunerations (including other allowances and benefits) such as annual incentive, airline tickets allowance, medical insurance, education assistance and terminal gratuity and other remunerations.
- The remunerations currently paid by the Bank to its staff members include fixed remunerations and variable remunerations, if any.
- Remunerations are paid to the employees by crediting the concerned staff account with the remuneration amount.

Succession Planning

Within its endeavors to ensure the sound workflow within the Bank, the Board of Directors approved succession planning to develop a second management level in the Bank's diverse divisions and prepare skilled & technical cadres to expeditiously occupy the key positions that become vacant in the Bank with a view to avert any risks that may arise in this regard. The Bank appraises the performance of the qualified incumbents selected to fill such key positions and who possess the required qualifications & credentials as per the Central Bank of Kuwait's instructions issued in this regard, thus identifying their training needs as per a specified training plan and program.

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

- The Bank has complied with the Central Bank of Kuwait's instructions on Corporate Governance rules & systems and the approved Corporate Governance Manual by preparing, completing and approving all byelaws & policies and requirements pertaining to Corporate Governance rules. The Bank, further, updates these byelaws & policies on a regular basis.
- The Bank has taken the required actions to ensure the proper implementation of Corporate Governance rules and has composed the Board Committees that enhance the effectiveness of the Board's supervision on the Bank's business & activities and also follow up & monitor the implementation of the various requirements of Corporate Governance.
- The Code of Conduct is circulated to the Board Members and all employees of the Bank along with obtaining their signatures for compliance with the content of Code of Conduct.
- The Bank's organizational structure includes proper means for overseeing the Group's business activities, add to this the functions of Internal Audit, Risk Management and Compliance & Corporate Governance to advocate excellence in Corporate Governance.
- Internal Audit Division, as an independent function from the Executive Management, audits and reviews the extent to which Corporate Governance rules are properly implemented and submits its report in this regard to the Board Audit Committee which, in its turn, presents the same to the Board of Directors.
- An independent External Auditor is engaged, on an annual basis, to assess the internal control systems and prepare ICR report to be sent to the Central Bank of Kuwait and this report includes the extent of the Bank's compliance with the implementation of Corporate Governance rules & instructions. It is to be noted that the External Auditor's 2018 report has not included any remarks on Corporate Governance rules.
- Further, the Bank started to take some procedures with a view to adjust & regularize its processes in line with the updated instructions dated September 2019 issued by the Central Bank of Kuwait with regard to Corporate Governance rules & systems, as such updated instructions require the Bank to introduce some amendments to the Bank's Articles of Association by increasing the number of Board Members and adding independent Members to the composition of the Board of Directors and its sub-committees, and also introduce amendments to the bylaws of the Board of Directors & committees and other policies & requirements related to Corporate Governance within the timeframe specified for applying such updated instructions officially on 30/6/2020.

The Rights of Shareholders & Stakeholders

The Bank's bylaws, policies and practices reflect the provisions of the laws, bylaws and instructions issued by regulatory authorities, such as controls and measures of protecting rights of shareholders & stakeholders, and treating them on equal basis, including minority and foreign shareholders, and giving them the opportunity to question the Board and rectify any violations of their rights by providing adequate & accurate information to shareholders without discrimination.

The Bank is fully aware that protection of stakeholders' rights constitutes an essential pillar of the good governance and that the Bank's final success is the fruit of the joint efforts with such parties. Stakeholders include any person or entity having relationship with the Bank such as depositors, shareholders, the Bank staff members, creditors, customers, suppliers and any other entity having relationship with the Bank.

Executive Committees

The Bank has in place 8 executive committees which present their reports to the CEO:

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

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

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

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

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

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

7. **Suspicious Transactions Reporting Committee**
   The Suspicious Transactions Reporting Committee was formed as per the Central Bank of Kuwait's circular dated 12/8/2019 with the objective of deciding whether or not to inform the Kuwait Financial Intelligence Unit (KFIU) on each Suspicious Transaction Report (STR) case.

8. **Special Assets Committee**
   The Special Assets Committee was formed to enhance the decisions taken process by the Bank the executive management with regard to the uncollected interests and/or debts with a view to safeguard the rights of the Bank and its shareholders.

Executive & Supervisory Management

Elham Yousry Mahfouz
The CEO

Ms. Elham is a banker holding a Bachelor with honor degree in Business Administration 1984 / American University, Egypt. Ms. Elham joined Commercial Bank of Kuwait in the year 2000 as Manager - International Banking and progressively occupied top-executive positions holding the position of GM - New York Branch, Acting GM - International Banking, GM - International Banking in December 2010, Acting CEO during the period from June 2010 until February 2012 and she was promoted as Deputy CEO in April 2012 and was appointed as the CEO of the Bank on 20/11/2014.
Before joining Commercial Bank of Kuwait, Ms. Elham worked in a number of Kuwaiti financial institutions. She possesses extensive knowledge in all banking & financial areas and banking industry trends in Kuwait on the back of her extensive experience and proven track record exceeding 35 years in banking sector.

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

Ms. Sahar is a banker holding a Bachelor degree in Economy 1988 / Kuwait University and possesses more than 30 year experience in corporate Banking. Ms. Sahar joined Commercial Bank of Kuwait in the year 2000 after working about 12 years in other Kuwaiti financial institutions. Ms. Sahar manages, in cooperation with her team, the Bank's corporate banking portfolio. Further, she was assigned, during the period from 9/12/2015 until 30/6/2018, the responsibilities as Acting General Manager - Retail Banking Division in addition to her responsibilities as General Manager - Corporate Banking Division. Ms. Sahar was also assigned, effective from 23/9/2018, the responsibilities of Acting General Manager - International Banking Division and she was promoted to the position of Deputy CEO - Corporate and International Banking Division in December 2018.

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

Mr. Masud is an accountant holding a Bachelor of Commerce 1981 / University of Punjab, Lahore, Pakistan and also obtained a diploma in International Financial Reporting Standards. He is a Fellow Member in the Institute of Costs & Management Accountants in Pakistan. Mr. Masud has been working with the Bank over the last 28 years in various capacities. He is able to drive the business toward favouring strategies with a strong financial underpinning, possesses soft skills in communication, presentation and workplace relationship building and dedicated to continued professional development. Mr. Masud believes in succession planning and career coaching to improve team performance, and he encourages professional growth through mentoring and skill improvement training.

Hussain Ali Al Aryan
General Manager - Treasury and Investment Division

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

Hanadi Ahmad Al Musallam
Acting General Manager - Retail Banking Division

Ms. Hanadi obtained a Bachelor degree in political science and general management - 1990 / Kuwait University. She has 27 year experience in retail banking area. She worked at Kuwait Finance House as a supervisor during the period from 1992 to 1995 and held the position of Assistant Branch Manager at Gulf Bank during the period from 1995 to 1998. Ms. Hanadi joined Commercial Bank of Kuwait in 1998 as Branch Manager and progressively occupied a number of positions holding the position of Deputy Region Manager and Region Manager until she was assigned the responsibilities of Acting General Manager - Retail Banking Division on 12 November 2019.

Paul Daoud
General Manager - Operations Division

Mr. Paul is a banker holding a Bachelor of Business Administration 2006 / Kendi Western - USA. Mr. Paul has 38 years experience at Commercial Bank of Kuwait where he joined the Bank in 1981. He worked in Retail Banking area where he progressively held a number of posts in Retail Banking Division until he held the position of General Manager, RBD. Effective from 9/12/2015, Mr. Paul was assigned to take over the responsibilities of Acting GM - Operations Division, then he was appointed as permanent & confirmed GM - Operations Division commencing from 28/6/2016.

Muneer Abulsalam Saleh
Legal Advisor to the Chairman and General Manager - Legal Division

Mr. Muneer held a Bachelor of Law 1990 / Cairo University and he is a lawyer enrolled in the roll of lawyers admitted to plead before the Court of Cassation, Supreme Administrative Court and Supreme Constitutional Court. He is an international arbitrator enrolled in GCC Arbitration Center and a Member in Arab Lawyers Union and the Egyptian Association of International Law.
Mr. Muneer started his career in Egypt since graduation, before joining one of the leading laws firms in Kuwait in 1998 where he was seconded for a specific period to take over the responsibilities of Legal Advisor to Burgan Bank. Subsequently, he held the position of Manager - Legal Department - Financial Securities Group during the period from 2001 until the beginning of 2019, then he held the position of Legal Advisor to the Chairman & GM - Legal Division at Commercial Bank of Kuwait in May 2019. Mr. Muneer managed, during his career path, to get a number of judgments passed in favor of the institutions in which he was employed in addition to his legal advice & recommendations raised to several committees concerned with promulgation of laws and executive regulations.

Ahmed Mohamed Farahat
Chief Internal Auditor - Internal Audit Division

Mr. Ahmad held a Bachelor degree in Accounting and Auditing 1994/ Faculty of Commerce - Cairo University and also obtained a number of specialized professional certificates in diverse areas such as Certified Internal Control Auditor, Certified Risk Analyst and Certified Fraud Examiner.
Mr. Ahmad held diverse positions in both audit and risk areas at different banks and companies in Kuwait, United Arab Emirates and Egypt. Mr. Ahmad's experience extends to about 22 years in internal audit, Corporate Governance and risk management and also has experience in fraud investigation at banks and financial institutions.
Mr. Ahmad joined the Bank in May 2015 as Deputy Chief Internal Auditor - Internal Audit Department and was appointed as Chief Internal Auditor - Internal Audit Department on 25/10/2015.

Abhik Goswami
Chief Risk Officer - Risk Management Division

Mr. Abhik held a Bachelor degree in Technology from Indian Institute of Technology / India and MBA (PGDM) from Indian Institute of Management. He is also a Chartered Financial Analyst (CFA), Charter holder from CFA Institute (USA) and has a Financial Risk Manager (FRM) certification on Enterprise Wide Risk Management from Global Association of Risk Professionals, USA and is also Certified in Risk and Information System Control (CRISC) from Information Systems Audit & Control Association (ISACA), USA. Mr. Abhik has 28 years experience in the banking sector, with over 19 years of Credit and Risk Management experience. He has worked with major banks like ICICI Bank and HSBC in India, and National Bank of Bahrain and Ahli United Bank Group in the GCC. Mr. Abhik has joined the Bank in June 21, 2017 as Chief Risk Officer.

Tamim Khalid Al Meaan
General Manager - Compliance and Corporate Governance Division

Mr. Tamim obtained a Bachelor degree in Accounting - Kuwait University in year 2000 and he is a Certified Anti-Money Laundering Specialist. He has over 19 years experience in regulatory supervision and compliance gained from his work with the Central Bank of Kuwait and a number of conventional, Islamic and foreign banks. Mr. Tamim joined Commercial Bank of Kuwait on 24 June 2018 as General Manager - Compliance and Corporate Governance Division.

Sadeq Jaffar Abdullah
General Manager - Human Resources Division

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

Bader Qamhieh
Acting GM - ITD

Mr. Bader Qamhieh holds BSC Computer Science in year 2000 / AL ALBAYT University - The Hashemite Kingdom of Jordan and his professional experience exceeds 19 years. He joined the Bank in 2007 as IT Assistant Manager / Information Technology Department. He progressively held a number of positions and was appointed as Acting General Manager - Information Technology Division in February 2017.
During his tenure with the Bank, Mr. Bader, with his team, managed to develop and create many systems & software which contributed in developing the Bank's operations and upgrading all e-channels starting from the Core Banking System & Internet Banking and Mobile Banking and developing Contact Center, SMS Banking and smart / chip cards related software. Mr. Bader's achievements were also proven in transforming the over-the-counter transactions in the Bank's branches to self-service and restructuring IT infrastructure & electronic communication networks within and outside the Bank and data centers in both production & staging/testing environments using the latest technologies and devices in line with the most widely recognized international security standards.

Sheikha / Nouf Salem Al Sabah
General Manager - Corporate Communications Division

Sheikha / Nouf has more than 22 year experience in banking advertising & media. She joined the Bank as Manager - Advertising & Public Relations Department, and then she progressively occupied a number of positions until she held the position of GM - Corporate Communications Division in 2018. During her tenure at the Bank, Sheikha / Nouf and Corporate Communications Team endeavored to demonstrate the Bank's corporate image as well as its social responsibility efforts through communication with the public via the traditional communication channels and the modern social media networks.

Sheikh / Nawaf Ali Al Sabah
Senior Manager - General Services Division

Sheikh / Nawaf has experience exceeding 22 years in management of General Services Division at the Bank. He progressively held a number of positions until he occupied the position of Senior Manager - General Services Division in 2010. During his tenure, Sheikh / Nawaf, in cooperation with his team, made available all the required services for the Bank within the duties & responsibilities assigned to the Division including safety & security features for the Bank.

Corporate Social Responsibility

The Bank's social role acquires increasing importance year after year. In order to stand as a true social responsible Bank among other peers, the Bank always endeavors to organize effective & purposeful CSR programs taking into account the requirements & needs of the diverse society segments, and this in turn contributes in achieving successful cooperation between the State and private entities.

In this context and during the year 2019, the Bank has consistently enhanced its social role to effectively contribute in the sustainable development of Kuwait by offering sponsorship and support to the various social activities & events organized and arranged by civil society institutions, i.e. the six Governorates of Kuwait where such cooperation has yielded a great success of the societal activities organized by Kuwait Governorates for their inhabitants under the Bank's sponsorship.

The Bank always endeavors to participate in the different events & activities which benefit all society segments, particularly the physically challenged segment. Drawing on this and out of its humanitarian and philanthropic initiatives, the Bank offered support & sponsorship to a number of educational & sporting activities designated for the physically challenged segment.

On another context and within its eventful Ramadan program, the Bank, through Corporate Communications Division, sponsored a number of humanitarian and philanthropic activities that aimed at offering support to all humanitarian related initiatives. In this context, the Bank held Iftar Banquet for both the officers of the Public Department of Central Operations - Receive Notifications Room 112 and Kuwait Police Helicopter Wing officers at Sheikh Nawaf Al-Ahmad Air Base - Ministry of Interior in recognition of their consolidated efforts for ensuring security of nationals & residents at all times particularly during the peak hours in the Holy Month of Ramadan.

In 2019, the Bank continued the activities of its “Hawwen Alaihom” Campaign targeting road cleaners & construction workers. In this context, the Bank continued to arrange visits in different occasions for road cleaners & construction workers at their work locations in recognition of their efforts in preserving the environment and keeping it clean and clear of litters.

Among its efforts towards environment conservation, the Bank organized an environmental awareness campaign under the slogan “Beaches Cleanup” in cooperation with the Green Hands Environmental Team. This Campaign was meant to keep Kuwait's beaches clean and free of waste & debris and protect them against any harmful acts or negative behavior with a view to safeguard Kuwait environment and the various animal species. This campaign reflected the Bank's belief in the importance of environment conservation and raising awareness for environment protection activities as a main pillar of the aspired sustainable development.

The Bank launched “Ya Zeen Turathna” Campaign, which is closely correlated to Commercial Bank of Kuwait, for the eighth year in row following the great success of the campaign over the past years and the proactive interaction of the public with the activities of this campaign. The Campaign included a number of the heritage activities that were arranged for the public and visitors in the renowned shopping malls.

The Bank also continued to issue its annual calendar for 2019 which mirrored & reflected various scenes from the history & heritage of Kuwait during the seventies which was a period of prosperity in Kuwait history. It is known that this era stood as a testimony of a significant resurgence Kuwait saw during the past decades in cultural, art, economic and educational areas.

Furthermore, the Bank always endeavors to localize jobs and encourage Kuwaiti talents to join the Bank and this is turn enhances sustainable development initiatives in Kuwait. Drawing on this and within its social responsibility towards Kuwaiti society, the Bank during 2019 endeavored to recruit a number of Kuwaitis across its various departments & branches and also provided them the opportunity to participate in specialized training programs with a view to define their career paths and create a promising generation of the new Kuwaiti bankers. This was positively reflected with an increase of Kuwaiti manpower to constitute more than 75% of total workforce in the Bank as the end of December 2019.

Commercial Bank of Kuwait, through Corporate Communications Division, endeavors to activate all means of communication with its customers and the public via social media networks (Instagram, Facebook, Twitter and Snapchat). However, and through such social media networks, the Bank initiates health awareness tips along with information about other humanitarian & social events.

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

Management Discussion and Analysis (MD&A)

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

In this context, the Management believes that Commercial Bank of Kuwait remains a financially stable institution, with sound asset quality, strong income growth potential, strong capital base and high liquidity. A summary of the Bank's financial position is presented below. The MD&A should be read in conjunction with our consolidated financial statements for the year ended 31st December, 2019. All amounts are stated in Kuwaiti Dinars and have been derived from consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Financial Objectives

Bank's medium-term financial objectives for certain important performance measures are set out below. These objectives establish a range of expected performance over time. We believe we will meet our financial objectives by enhancing operational efficiency, introducing innovative delivery channels, digitalization and perusing our strategic priorities.

Bank's business planning process is rigorous, sets ambitious goals and considers the prevailing economic conditions, our risk appetite, our customers' evolving needs and the opportunities available across our lines of business. Currently Bank's new strategic plan (Shaping the Future) for next five years in progress and after necessary approvals the implementation will be regularly monitored and reported to the relevant authorities.

Our medium-term financial objectives are to achieve average annual return on equity (before provision) greater than 15% and maintain capital ratios that exceed regulatory requirements. These objectives are guideposts as we execute against our strategic priorities. In managing our operations and risk, we recognize that current profitability and the ability to meet these objectives in a single period must be balanced with the need to invest in our businesses for their future long-term health and growth prospects.

Fundamental Strengths

Diversified businesses that continue to deliver robust earnings growth and long-term value for shareholders. Strong foundation built for growth and differentiating strengths that drive competitive advantage:

- Well-established, flagship banking business in Kuwait.
- Diversified operations well positioned to capture growth opportunities.
- Transformative technology architecture, data and digital capabilities delivering customer and business value.
- Well-capitalized.
- Creating sustainable efficiency and reinvestment capacity through resource optimization, simplification and innovation.
- Leading employee engagement and culture of unity and enhance succession planning.

Balance Sheet

Maintaining a strong balance sheet is foundational to our long-term success. Our goal is to maintain strong capital ratios that comfortably exceed regulatory targets. We look to constantly balance our objectives of holding a prudent amount of excess capital for unexpected events and environmental uncertainties, at the end of 2019, our Basel III CET1 ratio on an all-in basis was 16.89%, well above the current all-in regulatory target set by the Central Bank of Kuwait. We remain focused on asset quality and a strong funding profile as key underpinnings of a strong and stable balance sheet.

Total assets at KD 4.9 billion are higher by 9.1% compared to last year. Loans and advances represent 46.5% of total assets, investment securities 11.5% and Treasury & Central Bank bonds are 4.3%. The loan and advances at KD 2.3 billion is mainly comprised of commercial loans with 29.9% concentrated in the real estate & construction sector and 29.0% concentrated in trade and commerce sector. Retail loans are 19.1% of the total loans mainly comprised of personal loans. The investment securities consist of debt securities 51.5% and equity portfolio of 48.5%. It is worth mentioning that it is the second consecutive year the Bank's non-performing loans are zero.

The total liabilities of KD 4.1 billion include customer deposits of KD 2.5 billion. The effort to diversify the sources of funds and arrangement of long term funds to enhance the stable sources of fund continued during the year and the Bank successfully arranged bilateral borrowings with a tenure of three years at reasonable rates. Total shareholders' equity reached KD 732.0 million.

Income Statement

The operating income for the year 2019 was KD 158.7 million (a growth of 5.1%) is mainly comprised of net interest income KD 97.3 million, fees and commission KD 42.5 million, foreign exchange income KD 7.2 million and dividend income of KD 4.6 million. Loans amounting to KD 116.9 million were written off during the year while recovery against previously written off loans amounted to KD 11,9 million. In line with Bank's prudent policy of proactive recognition of problems, the operating profit was mainly allocated to specific provisions against certain loans where the management has some concerns. The specific provision was used to transfer those loans to the memorandum account. The resultant net profit attributable to the shareholders of the bank was zero for the year 2019. The Corporate and Retail banking activities are the main source of Bank's revenue. Expense management continues to be one of the Bank's strengths; the cost to income ratio at 31.6% is one of the lower in the industry.

Capital adequacy & other Basel III ratios

The Bank's capital adequacy ratio of 18.1%, LCR 171%, NSFR 113.5% and leverage ratio 11.0% are well above the Central Bank of Kuwait's stipulated requirements.

Review of Historical Performance

The Bank's operating profit before provisions has been growing over the last five years despite the prevailing geo political crisis in the region and volatile oil prices. The Bank also achieved a consistent growth in the net profitability during this period except current year, as to maintain non-performing loans at zero some loans were written off in line with Bank's conservative policy in this regard. The most of the Bank's operations are locally concentrated to make up 70.5% of total assets of the Bank. The growth in assets has been moderate during this period as the Bank continued to focus on qualitative factors rather than quantitative indicators.

Review of the Operating Environment

The activity in government supported infrastructure development projects was subdued during the year with projects worth USD 3.7 bil getting awarded in 2019 when compared to USD 6 billion in 2018 (2017: USD 11 bil). However, credit growth remained healthy at 4.3% y-o-y as at Dec 2019, driven by business lending growth, increase in household credit and acceleration in credit to non-bank financial institutions. While, the growth in business lending was driven by real estate sector, the growth in household credit was supported by personal consumption loans.

The liquidity position of the local banking industry slightly tightened during 2019 which is reflected in lower deposit growth and increase in the credit to deposit ratio to 88%. (2018: 85%). Although, the discount rate was lowered by the Central Bank of Kuwait by 25 basis points in October 2019 in response to three rate cuts by US Federal Reserve during 2019, the local commercial banking industry continued to face a challenging operating environment with the returns not increasing in line with the cost of funds.

The price of brent crude oil averaged USD 64 per barrel in 2019 which was USD 7 per barrel lower than its 2018 average. Brent prices reached an annual daily low of $55/b in early January, rising to a daily high of $75/b in late April. The resulting range of $20/b is the narrowest since 2003. Kuwait has strong fiscal position to support its economy through a period of low oil prices given its low fiscal breakeven price, as well as strong foreign exchange and sovereign wealth reserves (one of the largest in the world) which will provide support to tide the country over in the face of sustained decline in oil revenue.

On the international front, the year 2019 saw the European Central Bank (ECB) restart its Quantitative Easing (QE) programme to shore up the Euro zone economy. The US Fed also adopted a dovish stance to support the economy by cutting interest rates three times after four hikes during 2018. While the US economy has continued to perform well, the European Union continues to lag behind despite negative interest rates.

From a growth perspective, China and India which were earlier the key drivers of global growth continued to show weakness during 2019. The Chinese economy, which grew at 6.2% in 2019, is forecasted to grow at 5.8% & 5.7% in 2020 and 2021 respectively. The Chinese Government is trying to move away from investment and export driven growth to consumption and domestic demand driven growth model. However, the shift is likely to take some time and till then the slowdown in growth is expected to persist. On 1 Oct 2016, International Monetary Fund (IMF) officially included Renminbi to the basket of currencies that make up the Special Drawing Right (SDR). However, the international use of the Renminbi for cross border trade and financial transactions has been subdued due to slowdown of China's economy and increase in financial risk. Growth in India also slowed down due to weaking of consumption, slowdown in job creation and a credit crunch among non bank financial institutions. Although, the government has taken a series of measures on fiscal policy to improve governance and the business climate which is reflected in significant improvement in India's ranking in the global governance ranking during the last two years, further steps need to be taken to improve infrastructure and boost investments.

Economic outlook - risks and challenges
Systemic risks -
Global and regional uncertainties

The political and economic outlook continues to be unstable in general and more specifically in Europe and the MENA region. The slowdown in global growth and the volatility of oil prices are major concerns for the global economy in general and Middle East economies in particular. With OPEC and Russia proactively controlling the supply of Oil, price of Oil is not expected to fall sharply. With Europe struggling with weakness in growth, US economy showing signs of slowdown with ebbing fiscal stimulus/tax cuts and China facing economic rebalancing and impact of Coronavirus, global growth is expected to slowdown in 2020. The CoronaVirus is expected to impact the supply chain significantly at least during first half of 2020. It is also expected to result in lower oil prices, and thus impacting the revenues of the oil exporting countries such as Kuwait.

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

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

The Bank believes that the performance and growth of the overall Corporate Credit portfolio is linked to the GDP growth of Kuwait which in turn is dependent, to a major extent, on oil prices as Oil revenue forms a major component of the overall GDP.

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

Local disruptive factors

Coordinated management of supply of Oil by OPEC and Russia has ensured relative stability in oil prices. However, in case this strategy does not deliver the desired results, lower oil prices and its spill over impact on the capital markets poses a challenge to the balance sheet of the Bank. Slowdown in award of government sponsored projects seen during 2019 despite improvement in oil prices from historic lows is negative for the growth of the banking sector. The risk of translation of lower oil revenues into reduction in government spending will be a major domestic concern.

Asset and liability concentrations

The Bank has consciously reduced the share of securities sectors' exposure in its lending portfolio but increased the share of Contracting, Manufacturing and Trade sectors. Concentration risk in the Bank's balance sheet on the liabilities side, mainly due to high proportion of deposits from government and quasi government entities, is a logical evolution of high liquidity in these entities. However, the Bank monitors and limits deposits from significant depositors. The risk strategy (risk appetite) for 2020-2024 has been finalised taking into account the operating environment as well as the challenges.

Idiosyncratic risks
Asset quality

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

Operational risks

The Bank recognises the operational risk issues which are identified from the incidents reported, operational loss data collected, and through conducting Risk and Control Self Assessments for all Bank divisions. Risk and Control Self Assessments have been conducted for all high and medium risk areas during 2019. Significant improvements have been seen in resolving earlier identified operational risks and strengthening of operational controls. The IT & Operational Risk Committee oversees the assessment of operational risks and follows up on creation and monitoring of adequate controls to mitigate these risks.

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

Financial Review

Statement of Income

- **Net interest income**

  Net interest income is comprised of earnings on assets, such as loans and securities less interest expense paid on liabilities, such as deposits. Net interest income of KD 97.3 million is higher by KD 3.4 million compared to KD 93.9 million of last year, an increase of 3.64%. The average yield on interest earning assets increased to 3.84% from 3.52% of last year. The average cost on interest bearing liabilities also increased from 1.40% to 1.85% during 2019. Bank's overall net interest margin of 2.24% decreased by 6 basis points due to increased cost of borrowings.

- **Non-interest income**

  Non-interest income at KD 61.4 million which comprises all revenues other than net interest income grew by KD 4.3 million (7.59%) Fee income increased by KD 1.7 million and other income by KD 2.6 million.

- **Non-interest expenses**

  Staff expenses of KD 28.0 million were higher by KD 3.9 million (16.43%) compared to 2018; current year includes higher accrual of incentive to staff. General and administration expenses of KD 18.0 million for 2019 were lower by KD 2.6 million (12.5%) while depreciation and amortisation expenses increased by KD 3.9 million mainly due to reclassification of rental expenses under IFRS16.

- **Impairment and other provisions**

  The charge for Impairment and other provisions of KD 108.5 million is higher by KD 69.1 million compared to 2018. The impairment and provision charge is net of recoveries KD 11.9 million against previously written off loans. The provision reserve at year end 2019 is KD 127.3 million while Non-performing loans are zero.

- **Net Profit**

  The net profit attributable to the shareholders of the bank is zero compared to KD 63.8 million for the last year. In line with Bank's prudent policy of proactive recognition of problems, the operating profit was mainly allocated to specific provisions against certain loans where the management has some concerns. The specific provision was used to transfer those loans to the memorandum account.

Balance Sheet

Total assets of KD 4,873 million increased by KD 405.7 million over last year. The major increase was in Treasury placements for liquidity management. The Investment securities increased by KD 11.0 million and Loans and advances net of provisions increased by KD 13.6 million.

The customer deposits increased by KD 161.0 million while the deposit from financial institutions decreased by KD 171.8 million.

Equity attributable to shareholders of the Bank was KD 731.8 million.

Dividends and Proposed Appropriations

Subject to approval by the Shareholders at the Annual General Meeting, the Board of Directors has recommended that there will be no dividend payment and no bonus shares.

Consolidated Financial Statements

31 December 2019
And Independent Auditors Report
to the Shareholders

Deloitte.

Deloitte & Touche
Al-Wazzan & Co.

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commercial Bank of Kuwait K.P.S.C. (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities, under those standards, are further described in the Auditors' responsibilities for the Audit of the Consolidated Financial Statements' section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Deloitte.

RSM
RSM Albazie & Co.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

We have identified the following key audit matter:

Impairment of loans and advances

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

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

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

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

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

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

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RSM Albazie & Co.

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

Report on the Audit of Consolidated Financial Statements (continued)

Other information included in the Annual Report of the Group for the year ended 31 December 2019

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditors' report thereon.

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Deloitte.

RSM
RSM Albazie & Co.

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

Report on the Audit of Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

Deloitte.

RSM
RSM Albazie & Co.

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

Report on the Audit of Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, its executive regulations; and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations; or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2019 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2019 that might have had a material effect on the business of the Bank or on its financial position.

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

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

4 February 2020
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2019

ASSETS	Note	2019 KD 000's	2018 KD 000's
Cash and short term funds	3	**856,901**	858,825
Treasury and Central Bank bonds	4	**248,806**	331,747
Due from banks and other financial institutions	5	**880,415**	370,366
Loans and advances	6	**2,266,662**	2,253,070
Investment securities	7	**559,960**	548,788
Premises and equipment		**29,375**	28,522
Intangible assets	9	**3,506**	3,506
Other assets	10	**27,603**	72,721
TOTAL ASSETS		**4,873,228**	4,467,545
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**585,382**	347,100
Due to other financial institutions		**709,107**	880,881
Customer deposits		**2,452,930**	2,291,890
Other borrowed funds		**189,944**	57,675
Other liabilities	11	**203,148**	160,142
TOTAL LIABILITIES		**4,140,511**	3,737,688
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital		**199,206**	181,096
Proposed bonus shares		**-**	18,110
Treasury shares		**(21,690)**	(4,578)
Reserves		**370,219**	314,327
Retained earnings		**184,093**	184,093
		731,828	693,048
Proposed dividend		**-**	35,976
		731,828	729,024
Non-controlling interests		**889**	833
TOTAL EQUITY	12	**732,717**	729,857
TOTAL LIABILITIES AND EQUITY		**4,873,228**	4,467,545

Sheikh Ahmad Duaij Jaber Al Sabah
Chairman

Elham Yousry Mahfouz
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2019

	Note	2019 KD 000's	2018 KD 000's
Interest income		**166,808**	143,771
Interest expense		**(69,527)**	(49,914)
NET INTEREST INCOME		**97,281**	93,857
Fees and commissions		**42,520**	40,804
Net gain from dealing in foreign currencies		**7,199**	7,149
Net gain from investment securities		**203**	156
Dividend income		**4,558**	4,753
Loss on disposal of assets pending sale		**(36)**	(106)
Other operating income		**6,961**	4,314
OPERATING INCOME		**158,686**	150,927
Staff expenses		**(27,952)**	(24,007)
General and administration expenses		**(18,033)**	(20,569)
Depreciation and amortisation		**(4,179)**	(291)
OPERATING EXPENSES		**(50,164)**	(44,867)
OPERATING PROFIT BEFORE PROVISIONS		**108,522**	106,060
Impairment and other provisions	13	**(108,462)**	(39,390)
PROFIT BEFORE TAXATION		**60**	66,670
Taxation	14	**-**	(2,900)
NET PROFIT FOR THE YEAR		**60**	63,770
Attributable to:			
Shareholders of the Bank		**-**	63,751
Non-controlling interests		**60**	19
		60	63,770
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	15	**-**	32.2

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	2019 KD 000's	2018 KD 000's
Net profit for the year	**60**	63,770
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to consolidated statement of income		
Equity securities classified as fair value through other comprehensive income:		
Net changes in fair value	**53,010**	43,557
Property revaluation gain (loss)	**775**	(516)
Items that are or may be reclassified subsequently to consolidated statement of income		
Debt securities classified as fair value through other comprehensive income:		
Net changes in fair value	**2,173**	(2,449)
Net loss on disposal transferred to income statement	**(70)**	(4)
	55,888	40,588
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**55,948**	104,358
Attributable to:		
Shareholders of the Bank	**55,892**	104,340
Non-controlling interests	**56**	18
	55,948	104,358

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	KD 000's														
	Attributable to shareholders of the Bank														
				Reserves											
	Share capital	Proposed bonus shares	Treasury shares	Share premium	Statutory reserve	General reserve	Treasury shares reserve	Property revaluation reserve	Investment valuation reserve	Total reserves	Retained earnings	Proposed dividend	Total	Non-controlling interests	Total
Balance as at 1 January 2018	164,633	16,463	(4,578)	66,791	115,977	17,927	-	24,624	48,196	273,515	174,724	29,435	654,192	828	655,020
Transition adjustment on the adoption of IFRS 9 at 1 January 2018	-	-	-	-	-	-	-	-	223	223	(296)	-	(73)	-	(73)
	164,633	16,463	(4,578)	66,791	115,977	17,927	-	24,624	48,419	273,738	174,428	29,435	654,119	828	654,947
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(516)	41,105	40,589	63,751	-	104,340	18	104,358
Issue of bonus shares	16,463	(16,463)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(29,435)	(29,435)	(13)	(29,448)
Proposed dividend (note 12(g))	-	-	-	-	-	-	-	-	-	-	(35,976)	35,976	-	-	-
Proposed bonus shares (note 12(g))	-	18,110	-	-	-	-	-	-	-	-	(18,110)	-	-	-	-
Balance as at 31 December 2018	181,096	18,110	(4,578)	66,791	115,977	17,927	-	24,108	89,524	314,327	184,093	35,976	729,024	833	729,857
Total comprehensive income for the year	-	-	-	-	-	-	-	775	55,117	55,892	-	-	55,892	56	55,948
Issue of bonus shares	18,110	(18,110)	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	(17,112)	-	-	-	-	-	-	-	-	-	(17,112)	-	(17,112)
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(35,976)	(35,976)	-	(35,976)
Balance as at 31 December 2019	199,206	-	(21,690)	66,791	115,977	17,927	-	24,883	144,641	370,219	184,093	-	731,828	889	732,717

Investment valuation reserve includes a loss of KD 5,432 thousand (31 December 2018: loss of KD 5,450 thousand) arising from foreign currency translation of the Bank's investment in its associate.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 KD 000's	2018 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		**60**	66,670
Adjustments for:			
Impairment and other provisions	13	**108,462**	39,390
Income from investment securities		**(4,761)**	(4,909)
Foreign exchange loss on investment securities		**2,068**	7,555
Depreciation and amortisation		**4,179**	291
Profit before changes in operating assets and liabilities		**110,008**	108,997
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		**82,941**	161,795
Due from banks and other financial institutions		**(510,063)**	199,503
Loans and advances		**(104,479)**	(56,941)
Other assets		**43,207**	21,952
Due to banks		**238,282**	33,431
Due to other financial institutions		**(171,774)**	(135,610)
Customer deposits		**161,040**	87,679
Other liabilities		**22,350**	(11,092)
Net cash (used in) from operating activities		**(128,488)**	409,714
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		**116,770**	117,220
Acquisition of investment securities		**(73,301)**	(172,191)
Dividend income from investment securities		**4,558**	4,753
Proceeds from disposal of premises and equipment		**13**	-
Acquisition of premises and equipment		**(662)**	(333)
Net cash from (used in) investing activities		**47,378**	(50,551)
FINANCING ACTIVITIES			
Other borrowed funds		**132,269**	19,925
Purchase of treasury shares		**(17,112)**	-
Dividend paid		**(35,976)**	(29,435)
Dividend paid to non-controlling interest		**-**	(13)
Net cash from (used in) financing activities		**79,181**	(9,523)
Net (decrease) increase in cash and short term funds		**(1,929)**	349,640
Cash and short term funds as at 1 January		**858,842**	509,202
Cash and short term funds as at 31 December	3	**856,913**	858,842

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

1 - INCORPORATION AND REGISTRATION

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

The Bank and its subsidiary are together referred to as «the Group» in this consolidated financial statements.

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors on 04 February 2020 and are issued subject to the approval of the Annual General Assembly of the Shareholders of the Bank. The Annual General Assembly of the Shareholders has the prerogative to amend this consolidated financial statements after issuance.
The principal activities of the Group are explained in note 21.

2 - SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations issued by the Central Bank of Kuwait ("CBK") for financial services institutions in the State of Kuwait. These regulations require the expected credit loss ("ECL") on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance with CBK guidelines or provisions as required by CBK instructions, with consequent impact on related disclosures. The regulations also require adoption of all other requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. ("IASB").

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

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

The accounting policies applied are consistent with those used in the previous year except for the adoption of IFRS 16 effective from 1 January 2019 as described below;

Standards issued and effective:

IFRS16:Leases

The Group has adopted IFRS 16: Leases issued in January 2016 with an effective date from 1 January 2019. This IFRS replaces IAS 17, IFRIC 4, SIC 15 and SIC 27. The standard set out the principle for the recognition, measurement, presentation and disclosure of the leases. The Group recognised ‹'lease liabilities" and the associated ‹'right-of-use asset" in relation to leases that were previously classified as operating lease under IAS 17. The Group applied a single recognition and measurement approach for all leases that the Group is the lessee, except for short-term leases and leases of low-value assets. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to KD 1,627 thousand, with no impact on retained earnings.

The Group adopted IFRS 16 using the modified retrospective method and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The carrying value of right-of-use assets and lease liabilities as at 31 December 2019 amounted to KD nil and KD 1,716 thousand respectively. Depreciation charge for right-of-use assets for the current year amounted to KD 3,608 thousand and is included in "depreciation and amortisation" in the consolidated statement of income. Interest expense on lease liabilities for the current year amounted to KD 55 thousand and is included in "interest expense" in the consolidated statement of income.

The adoption of this standard did not have any material impact on the disclosures in the consolidated financial statements.

Other amendments to standards which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance 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) Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. These amendments are not expected to have any impact on the consolidated financial statement of the Group.

ii) Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

iii) Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Other new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2020 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and a subsidiary (note 16) as at 31 December each year.

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

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

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

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

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

(c) Associates

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

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

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

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

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

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

(d) Financial instruments

Financial instruments comprises of financial assets and financial liabilities.

i) Classification and measurement

Financial assets

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

a) Business model assessment

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

i) How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
ii) The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the methodology adopted to manage those risks;
iii) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
iv) The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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

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

i) Contingent events that would change the amount and timing of cash flows;
ii) Leverage features;
iii) Prepayment and extension terms;
iv) Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
v) Features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

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

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

a) Financial assets carried at amortised cost
b) Financial assets carried at fair value through other comprehensive income (FVOCI)
c) Financial assets carried at fair value through profit or loss (FVTPL)

a) financial asset is carried at amortised cost

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

a) it is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
b) its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

b) Financial assets carried at FVOCI

i) Debt securities at FVOCI

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

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

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

ii) Equity securities at FVOCI

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

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

c) Financial assets carried at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income.

The Group financial assets are classified and measured as follows:

i) Cash and short term funds

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

ii) Treasury and Central Bank bonds

Treasury and Central Bank bonds are carried at amortised cost using effective interest rate method.

iii) Due from banks and other financial institutions

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

iv) Loans and advances

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

v) Investment securities

The Group's investment securities consists of debt securities, equity securities and other investments.

Debt securities that meet SPPI Criteria are classified either at amortised cost or at FVOCI based on the business model in which these securities are managed.

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

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

ii) Financial liabilities

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

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

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 recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in income in accordance with the policy applicable to the related instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

A financial asset is derecognised

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

c) when it has neither transferred nor retained substantially all risks and rewards of ownership and it no longer has control over the asset or portion of the asset.

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

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

iv) Derivative financial instruments and hedge accounting

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

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. In the case of fair value hedge, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to consolidated statement of income from that date.

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to consolidated statement of income.

If a derivative contract does not qualify for hedge accounting as per the hedge accounting rules of the Group, they are treated as derivatives held for trading. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. The resultant gains and losses are included in the consolidated statement of income.

v) Financial guarantee

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

vi) Offsetting financial instruments

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

vii) Asset pending sale

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

viii) Fair values

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

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

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

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

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

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

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

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

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

ix) Amortised cost

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

x) Impairment of financial assets

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

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

Equity securities are not subject to expected credit losses.

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

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

Impairment of financial assets other than credit facilities is based on IFRS 9 ECL.

a) Expected credit loss (ECL)

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

i) Stage Classification

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

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

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

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

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

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

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

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

Stage 1: 12-month ECL

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

Stage 2: Life time ECL - not credit impaired

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

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

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

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

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

Stage 3: Life time ECL - Credit impaired

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

ii) Measurement of ECLs

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

a) Probability of Default (PD) estimation

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

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

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

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

b) Exposure at Default (EAD)

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

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

c) Loss Given Default (LGD)

The LGD represents expected credit loss in the event of default, its expected value when realised and the time value of money. For credit facilities classified under stage 1 and 2, the internal LGD estimation of the Group is used if it is higher than the minimum LGD as per CBK guidelines. The LGD models also considers minimum haircut to the collateral values as per CBK guidelines. LGD for stage 3 facilities are required 100% as per CBK guidelines.

Incorporation of forward looking information

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

iii) Modified loans and advances

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

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

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

i) General provision

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

ii) Specific provision

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

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

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

Write off

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

Presentation of allowance for ECL in the statement of financial position

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

(e) Premises and equipment

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

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

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

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

(f) Leases

Policy applicable from 1 January 2019

The Group assesses a contract at inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of the right-of-use assets are recorded under premises and equipment in the consolidated statement of financial position.

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the borrowing rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and are recorded under other liabilities in the consolidated statement of financial position.

Policy applicable before 1 January 2019

Operating lease payments are recognised as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

(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) Intangible assets

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

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

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

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

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

(i) Treasury shares

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

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

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

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

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

(l) End of service pay

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

The Group recognises this cost as an expense of the year and represents the amount payable to each employee as a result of involuntary termination on the reporting date. The Group considers this to be a reliable approximation of the present value of this obligation.

(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 judgements and estimates

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

Judgments

Classification of financial assets

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

Estimation uncertainty and assumptions

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

Impairment loss on loans and advances and other financial instruments

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

Provision for credit losses

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

Valuation of unquoted equity securities

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

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

Impairment of intangible assets

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

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e. a change in business strategy).

3 CASH AND SHORT TERM FUNDS

	2019 KD 000's	2018 KD 000's
Cash and cash items	**113,004**	216,880
Balances with the CBK	**133,137**	119,732
Deposits with banks maturing within seven days	**610,772**	522,230
	856,913	858,842
Less: Provision for impairment (ECL)	**(12)**	(17)
	856,901	858,825

4 TREASURY AND CENTRAL BANK BONDS

	2019 KD 000's	2018 KD 000's
Treasury bonds	**131,069**	214,013
Central Bank bonds	**117,737**	117,734
	248,806	331,747

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

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 KD 000's	2018 KD 000's
Placements with banks	**704,453**	268,858
Less: Provision for impairment (ECL)	**(66)**	(46)
	704,387	268,812
Amounts due from other financial institutions	**30,000**	-
Loans and advances to banks	**147,806**	102,580
Less: Provision for impairment	**(1,778)**	(1,026)
	176,028	101,554
	880,415	370,366

The ECL on credit facilities to the Banks and OFI's determined under IFRS 9 amounted to KD 287 thousand as at 31 December 2019 (2018: KD 379 thousand). Majority of due from banks and other financial institutions are with counterparty rated as investment grade.

6 - LOANS AND ADVANCES

The Group's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below:

As at 31 December 2019

	KD 000's				
	Kuwait	**Asia**	**Europe**	**Others**	**Total**
Trade and commerce	**541,254**	**63,098**	**-**	**-**	**604,352**
Construction and real estate	**702,961**	**13,662**	**-**	**-**	**716,623**
Other financial institutions	**60,397**	**30,375**	**-**	**-**	**90,772**
Retail customers	**456,442**	**-**	**-**	**-**	**456,442**
Others	**476,041**	**45,725**	**-**	**4,044**	**525,810**
	2,237,095	**152,860**	**-**	**4,044**	**2,393,999**
Less: Provision for impairment					**(127,337)**
					2,266,662

As at 31 December 2018

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

(b) Movement in provisions for loans and advances

	2019			2018		
	KD 000's			KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**-**	**142,212**	**142,212**	10,004	126,826	136,830
Written-off	**(116,806)**	**-**	**(116,806)**	(110,023)	-	(110,023)
Exchange differences	**-**	**(18)**	**(18)**	(1)	(28)	(29)
Ceded to Central Bank	**-**	**-**	**-**	(2)	-	(2)
Charged / (released) to consolidated statement of income	**116,806**	**(14,857)**	**101,949**	100,022	15,414	115,436
Provisions 31 December	**-**	**127,337**	**127,337**	-	142,212	142,212

The specific and general provision for cash credit facilities amounting to KD 127,337 thousand (2018: KD 142,212 thousand) includes additional provision amounting to KD 97,500 thousand (2018: KD 112,300 thousand) which is over and above the CBK's minimum general provision requirements. The available provision for non-cash credit facilities of KD 25,272 thousand (2018: KD 9,584 thousand) is included in other liabilities.

The ECL on credit facilities determined under IFRS 9 amounted to KD 50,057 thousand as at 31 December 2019 (2018: KD 29,050).

The provision required under CBK rules on classification of credit facilities is higher than ECL under CBK guidelines for IFRS 9.

7 - INVESTMENT SECURITIES

	2019	2018
	KD 000's	KD 000's
Financial assets at FVOCI:		
Debt securities -quoted	**272,231**	292,000
Debt securities -unquoted	**15,952**	15,553
Equity securities -quoted	**246,631**	215,350
Equity securities -unquoted	**25,138**	25,849
Financial assets at FVPL:		
Others	**8**	36
	559,960	548,788

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

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	KD 000's	**KD 000's**	**KD 000's**	**KD 000's**
Gross carrying amount as at 1 January	**299,239**	**8,531**	**2,265**	**310,035**
Net movement during the year	**(19,637)**	**150**	**(520)**	**(20,007)**
	279,602	**8,681**	**1,745**	**290,028**

Movement in ECL	2019			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January	198	19	2,265	2,482
(Released) during the year	(101)	(16)	(520)	(637)
	97	3	1,745	1,845

	2018			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Gross carrying amount as at 1 January	255,220	-	2,509	257,729
Net movement during the year	44,019	8,531	(244)	52,306
	299,239	8,531	2,265	310,035

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

a) During 2008, the Bank acquired 221,425,095 shares of Boubyan Bank at a cost of KD 94,103 thousand under multiple purchase transactions, all of which were executed under the standard procedures adopted by Boursa Kuwait. However, at a subsequent date, and as a result of the availability of cash balances in the account of the parent company ("the Borrower") related to the five subsidiaries which sold the mentioned shares in Boursa Kuwait (we refer to the five subsidiaries companies below as "Appellants") , the Bank utilized these balances to close the loan due from the Borrower. In 2009, the Borrower, along with the appellants, filed a legal case challenging the Bank's ownership of the above mentioned shares where a final court judgment was issued in this dispute on 27 December 2017. A summary of major events is detailed hereunder:

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

During 2010, the Bank participated in the rights issue and acquired 127,058,530 shares at a cost of KD 32,401 thousand and thereafter, during the years 2013 to the reporting date, the Bank received a total of 105,837,475 bonus shares.

In April 2016, the Court of First Instance issued a verdict in favor of the Bank confirming the validity of the Bank's ownership of 221,425,095 shares.

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

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

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

On 16 June 2019, a judgment was issued in favor of the Bank, which stipulates, firstly, to immediately stop execution of the earlier judgment by court of appeal as well as the amended judgment issued by the court of cassation and directed the appellants to refund the amount due to the Bank as consideration for returning the shares. Secondly, an expert delegate will determine the amount due from each of the five subsidiaries out of the principal amount to be refunded to the Bank, determine share of each subsidiary in the nullified shares and yields from the shares, subject of the nullified agreements, along with their interests and benefits, determine the fees and expenses paid in shares sale transactions and determine who is obligated to pay.

On 17 November 2019, the appeal court, scheduled next hearing on 16 February 2020 for merging the case contents, and scheduled another hearing on 02 February 2020 for receiving the Expert's report.

b) During the year ended 31 December 2019, the Group designated certain debt securities as hedged items, to hedge the fair value changes arising from changes in market interest rates. Interest rate swap (IRS) is used as hedging instruments in which the Group pays fixed and receives floating interest rate.

Based on the matching of critical terms between the hedge items and the hedged instruments it was concluded that the hedges were effective.

The carrying value of debt securities designated as hedged item as at 31 December 2019 was KD 178,816 thousand. The change in fair value of these securities resulting from changes in market interest rate (hedged risk) during the year was KD 3,609 thousand. The changes in fair value related to hedged risk during the year was recognised in the consolidated statement of income.

8 - INVESTMENT IN AN ASSOCIATE

The Group owns 32.26% (2018: 32.26%) interest in Al Cham Islamic Bank S.A, a private bank incorporated in the Republic of Syria, engaged in Islamic banking activities. This has been fully impaired in the prior years.

9 - INTANGIBLE ASSETS

Intangible assets represent the value of a brokerage license KD 3,506 thousand (2018: KD 3,506 thousand). The brokerage license is considered to have an indefinite useful life.

As at 31 December 2019, the carrying value of brokerage license was tested for impairment by estimating the recoverable amount of the cash generating unit to which these items are allocated using value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management over a five-year period and a relevant terminal growth rate of 3.1% (2018: 3.2%). These cash flows were then discounted using a pre-tax discount rate of 10% (2018: 9.7%) to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that the additional impairment is required for the brokerage license (2018: KD nil thousand).

10 - OTHER ASSETS

	2019	2018
	KD 000's	KD 000's
Accrued interest receivable	**3,814**	2,282
Other receivables	**23,789**	70,439
	27,603	72,721

Other receivables include assets pending sale amounting to KD 188 thousand (2018: KD 57,689 thousand) that was obtained through the settlement of loans and advances.

11 - OTHER LIABILITIES

	2019	2018
	KD 000's	KD 000's
Accrued interest payable	**36,955**	23,906
Deferred income	**6,376**	5,522
Provision for non-cash facilities and others	**90,932**	75,054
Staff related accruals	**9,373**	8,061
Others	**59,512**	47,599
	203,148	160,142

12 - EQUITY

(a) Share capital

The authorised share capital of the Bank comprises of 2,500,000,000 (2018: 1,810,960,405) shares of 100 fils each. The increase in authorised share capital was approved by the Extraordinary General Meeting of the shareholders held on 23 March 2019.

The share capital comprises of 1,992,056,445 (2018: 1,810,960,405) subscribed and fully paid ordinary shares of 100 fils each. For detailed qualitative disclosure on capital management, please refer to note II "Capital adequacy" of the Public Disclosures on Capital Adequacy Standard.

(b) Treasury shares

	2019	2018
Number of treasury shares	47,563,008	12,172,728
Percentage of total shares issued	2.39%	0.67%
Cost of shares (KD 000's)	21,690	4,578
Fair value of shares (KD 000's)	25,161	6,086
Weighted average fair value per treasury share (fils)	479	400

Movement in treasury shares are as follows:

	No. of shares	
	2019	2018
Balance as at 1 January	12,172,728	11,066,117
Purchases	34,173,007	-
Bonus issue	1,217,273	1,106,611
Balance as at 31 December	47,563,008	12,172,728

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

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

(c) Share premium

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

(d) Statutory and general reserves

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

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

The general reserve was created in accordance with the Bank's Articles of Association and is available for distribution. During the years 2019 and 2018 there were no transfers to general reserve.

(e) Property revaluation reserve

This represents surplus arising from the revaluation of property.

(f) Investment valuation reserve

This represents gains or losses arising from changes in the fair value of investment securities classified as FVOCI. The reserve related to debt securities is transferred to the consolidated statement of income when the underlying assets are disposed off or impaired. The reserve related to equity securities will remain within consolidated statement of changes in equity.

(g) Proposed dividend and bonus shares

Annual General Assembly of the shareholders' held on 23 March 2019 approved to distribute cash dividend of 20 fils per share (2017: 18 fils per share) and 10 bonus shares for every 100 shares held (2017: 10 bonus shares for every 100 shares) for the year 2018. Subsequently, the cash dividend was paid and the bonus shares increased the number of shares by 181,096,040 and accordingly, the share capital by KD 18,110 thousand.

The Board of Directors has proposed a cash dividend of nil fils per share (2018: 20 fils per share) and nil bonus shares (2018: 10 bonus shares for every 100 shares held) for the year 2019. This proposal is subject to the approval of competent regulatory authorities and shareholders' Annual General Assembly.

13 - IMPAIRMENT AND OTHER PROVISIONS

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

	2019 KD 000's	2018 KD 000's
Loans and advances - specific	(116,806)	(100,022)
Loans and advances - recoveries	11,930	78,455
Loans and advances - general	14,105	(15,702)
Investment securities	117	284
Non cash facilities	(15,688)	227
Other provisions	(2,120)	(2,632)
	(108,462)	(39,390)

Impairment and other provisions includes release of ECL on financial assets other than loans and advances for the year ended 31 December 2019 amounting to KD 637 thousand (2018: KD 250 thousand).

14 - TAXATION

	2019 KD 000's	2018 KD 000's
National Labour Support Tax (NLST)	-	(1,588)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)	-	(676)
Zakat	-	(636)
	-	(2,900)

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

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

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

15 - EARNINGS PER SHARE

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

	2019	2018
Net profit for the year attributable to shareholders of the Bank (KD 000's)	**-**	63,751
Weighted average of subscribed and fully paid ordinary shares (numbers in 000's)	**1,992,056**	1,992,056
Less: Weighted average of treasury shares held (numbers in 000's)	**(26,122)**	(13,390)
	1,965,934	1,978,666
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	**-**	32.2

Basic and diluted earnings per share for the current and comparative period presented have been adjusted to reflect the effect of bonus shares issued in 2019.

16 - SUBSIDIARY

Name of Entity	Country of Incorporation	Principal Business	% of Ownership	
			2019	2018
Al-Tijari Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage services	**93.55%**	93.55%

17 - RELATED PARTY TRANSACTIONS

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

	2019			2018		
	Number of Directors/ Executives	**Number of Related Members**	**Amount in KD 000's**	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's
Board of Directors						
Loans	**3**	**1**	**1,612**	2	-	453
Credit cards	**4**	**2**	**24**	3	1	3
Deposits	**9**	**16**	**1,669**	9	-	838
Executive Management						
Loans	**22**	**3**	**609**	22	-	517
Credit cards	**22**	**1**	**39**	7	-	15
Deposits	**31**	**22**	**608**	31	-	522
Associates						
Deposits	**1**	**-**	**13,592**	1	-	13,505
Major Shareholders						
Deposits	**1**	**-**	**11**	1	-	5,148

Interest income and interest expense include KD 38 thousand (31 December 2018: KD 26 thousand) and KD 1,332 thousand (31 December 2018: KD 1,783 thousand) respectively on transactions with related parties.

Details of compensation for key management including remuneration of the Chief Executive Officer amounting to KD 221 thousand (31 December 2018 KD: 207 thousand) are as follows:

	2019	2018
	KD 000's	KD 000's
Salaries and other short-term benefits	**1,543**	1,228
Post employment benefits	**29**	4
End of service benefits	**178**	52

The remuneration to the Chairman and members of the Board of Directors is KD 445 thousand (2018: KD 466 thousand) for assignments performed by them related to the Board Committees.

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

18 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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

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

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

	2019			
	KD 000's			
Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL:				
Other securities	**-**	**8**	**-**	**8**
Derivative Financial instruments at FVTPL:				
Derivative financial instruments (note 19)	**-**	**(3,866)**	**-**	**(3,866)**
Financial assets at FVOCI:				
Equity securities	**246,631**	**25,138**	**-**	**271,769**
Debt securities	**272,231**	**15,952**	**-**	**288,183**
	518,862	**41,090**	**-**	**559,952**

During the year ended 31 December 2019, there were no transfers between level 1, level 2 and level 3.

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

19 - FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

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

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

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

(b) Overall risk management

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

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

(i) CREDIT RISK

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

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

(a) Credit risk concentration

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

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

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

	2019 KD 000's	2018 KD 000's
Credit exposure relating to on-balance sheet items		
Cash and short term funds	**856,901**	858,825
Treasury and Central Bank bonds	**248,806**	331,747
Due from banks and OFIs	**880,415**	370,366
Loans and advances - Corporate	**1,814,768**	1,794,686
Loans and advances - Retail	**451,894**	458,384
Debt securities	**288,183**	307,553
Other assets	**27,603**	15,285
	4,568,570	4,136,846
Credit exposure relating to off-balance sheet items		
Acceptances	**50,003**	39,878
Letters of credit	**138,382**	199,924
Letters of guarantee	**1,417,651**	1,307,045
Undrawn lines of credit	**961,426**	821,976
	2,567,462	2,368,823
	7,136,032	6,505,669

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

(c) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. CBK guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. To assess the recoverable value of collateral the Group applies the minimum haircut as stipulated in CBK guidelines.

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

(d) Quality of credit exposure

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

	KD 000's						
	Neither past due nor impaired			Past due but not impaired		Impaired	Fair value of collateral
	Superior grade	Good grade	Standard grade	0 - 60 days	61 - 90 days		
As at 31 December 2019							
Banks	**106,301**	**15,257**	**26,248**	**-**	**-**	**-**	**-**
Corporate	**296,359**	**1,045,440**	**296,724**	**298,241**	**793**	**-**	**-**
Retail	**-**	**-**	**438,367**	**18,075**	**-**	**-**	**-**
	402,660	**1,060,697**	**761,339**	**316,316**	**793**	**-**	**-**
As at 31 December 2018							
Banks	32,984	54,126	15,470	-	-	-	-
Corporate	264,077	1,161,804	2,650	500,939	2,814	-	-
Retail	-	-	442,404	20,594	-	-	-
	297,061	1,215,930	460,524	521,533	2,814	-	-

The Group's risk grading system is a systematic methodology for analysing risk factors associated with the extension of extending credit.

The Group uses the external ratings of credit rating agencies for the assessment of banks and financial institution and an internal grading for corporate customers, if external ratings are not available.

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

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

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

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

	2019 KD 000's		2018 KD 000's	
	Assets	Off Balance Sheet	Assets	Off Balance Sheet
Geographic sector				
Kuwait	3,413,083	2,060,434	3,303,998	1,890,787
Asia	1,045,641	309,598	894,857	287,600
Europe	326,998	148,621	143,872	147,794
USA	10,016	28,001	2,950	15,768
Others	44,609	20,808	32,404	26,874
	4,840,347	2,567,462	4,378,081	2,368,823
Industry sector				
Government	248,806	-	331,747	-
Trade and commerce	604,352	647,742	646,313	511,779
Construction and real estate	716,623	1,151,489	630,686	959,316
Banks and financial institutions	2,270,395	427,240	1,759,399	487,786
Others	1,000,171	340,991	1,009,936	409,942
	4,840,347	2,567,462	4,378,081	2,368,823

(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 is taken to the consolidated statement of income.

			KD 000's				
			Notional amount by term maturity				
As at 31 December 2019	**Positive fair value**	**Negative fair value**	**Up to 1 Month**	**1 to 3 Months**	**3 to 12 Months**	**Over 1 Year**	**Total**
Forward Foreign Exchange Contracts	**738**	**1,627**	**209,870**	**49,094**	**69,252**	**-**	**328,216**
Interest Rate Swaps held as fair value hedge	**176**	**3,153**	**-**	**1,917**	**40,684**	**146,892**	**189,493**
	914	**4,780**	**209,870**	**51,011**	**109,936**	**146,892**	**517,709**
As at 31 December 2018							
Forward Foreign Exchange Contracts	4,450	2,096	413,098	132,607	68,225	-	613,930
Interest Rate Swaps	1,280	649	1,214	4,141	27,736	136,697	169,788
	5,730	2,745	414,312	136,748	95,961	136,697	783,718

(ii) MARKET RISK

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

(A) Interest rate risk

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

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

	Basis points	KD 000's 2019	KD 000's 2018
Kuwaiti dinar	+25	**2,146**	2,893
US dollar	+25	**645**	(220)
Other currencies	+25	**419**	577
		3,210	3,250

(B) Currency risk

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

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

		KD 000's			
		2019		2018	
	% Change in currency rates	**Statement of income**	**Equity**	Statement of income	Equity
US Dollar	+5	**(201)**	**-**	(162)	-
Sterling Pound	+5	**3**	**147**	(1)	199
Australian Dollar	+5	**2**	**-**	5	-
Saudi Riyal	+5	**48**	**-**	13	-
UAE Dirham	+5	**66**	**-**	77	-
Qatari Riyal	+5	**26**	**-**	44	-
Others	+5	**27**	**-**	41	-
		(29)	**147**	17	199

(C) Equity price risk

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

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

		KD 000's			
		2019		2018	
	% Change in equity price	**Statement of income**	**Equity**	Statement of income	Equity
Boursa Kuwait	**+5**	**-**	**12,332**	-	10,768

iii) LIQUIDITY RISK

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

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

As at 31 December 2019	KD 000's 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	843,517	-	13,384	-	-	856,901
Treasury and Central Bank bonds	247,997	636	173	-	-	248,806
Due from banks and OFIs	289,578	285,762	145,581	73,381	86,113	880,415
Loans and advances	275,513	273,465	298,041	440,496	979,147	2,266,662
Investment securities	190,476	1,138	1,125	21,125	346,096	559,960
Premises and equipment	-	-	-	-	29,375	29,375
Intangible assets	-	-	-	-	3,506	3,506
Other assets	21,646	1,110	805	42	4,000	27,603
	1,868,727	562,111	459,109	535,044	1,448,237	4,873,228
LIABILITIES						
Due to banks	135,694	30,330	202,053	210,932	6,373	585,382
Due to OFI's	158,849	261,146	110,921	161,413	16,778	709,107
Customer deposits	1,635,913	272,694	275,396	185,272	83,655	2,452,930
Other borrowed funds	-	-	-	74,915	115,029	189,944
Other liabilities	47,284	17,245	11,797	10,022	116,800	203,148
	1,977,740	581,415	600,167	642,554	338,635	4,140,511
Net liquidity gap	(109,013)	(19,304)	(141,058)	(107,510)	1,109,602	732,717

As at 31 December 2018	KD 000's Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
ASSETS						
Cash and short term funds	858,825	-	-	-	-	858,825
Treasury and Central Bank bonds	330,503	957	287	-	-	331,747
Due from banks and OFIs	87,328	143,655	-	98,785	40,598	370,366
Loans and advances	279,614	290,838	395,935	486,451	800,232	2,253,070
Investment securities	232,179	823	3,736	3,370	308,680	548,788
Premises and equipment	-	-	-	-	28,522	28,522
Intangible assets	-	-	-	-	3,506	3,506
Other assets	7,847	319	-	56,901	7,654	72,721
	1,796,296	436,592	399,958	645,507	1,189,192	4,467,545

	KD 000's					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
LIABILITIES						
Due to banks	203,009	39,636	44,455	30,000	30,000	347,100
Due to OFI's	170,560	81,967	42,088	299,857	286,409	880,881
Customer deposits	1,747,456	221,632	242,858	65,833	14,111	2,291,890
Other borrowed funds	12,142	-	45,533	-	-	57,675
Other liabilities	36,914	12,046	7,088	5,856	98,238	160,142
	2,170,081	355,281	382,022	401,546	428,758	3,737,688
Net liquidity gap	(373,785)	81,311	17,936	243,961	760,434	729,857

(B) Contractual expiry by maturity.

	KD 000's					
As at 31 December 2019	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
Contingent Liabilities	**529,384**	**463,496**	**416,037**	**493,606**	**664,939**	**2,567,462**
As at 31 December 2018						
Contingent Liabilities	1,148,117	281,137	157,773	229,187	552,609	2,368,823

(C) Contractual undiscounted repayment obligations by maturity.

	KD 000's					
As at 31 December 2019	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
UNDISCOUNTED LIABILITIES						
Due to banks	**135,847**	**30,451**	**205,048**	**214,535**	**6,633**	**592,514**
Due to OFI's	**158,926**	**262,200**	**112,102**	**164,106**	**16,797**	**714,131**
Customer deposits	**1,636,174**	**273,167**	**277,023**	**188,288**	**87,366**	**2,462,018**
Other borrowed funds	**38**	**1,265**	**-**	**75,441**	**128,177**	**204,921**
Other liabilities	**47,284**	**17,245**	**11,797**	**10,022**	**116,800**	**203,148**
	1,978,269	**584,328**	**605,970**	**652,392**	**355,773**	**4,176,732**

	KD 000's					
As at 31 December 2018	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
UNDISCOUNTED LIABILITIES						
Due to banks	203,326	39,677	44,912	30,863	30,912	349,690
Due to OFI's	170,601	82,196	42,473	305,367	298,644	899,281
Customer deposits	1,747,785	222,385	243,863	66,450	14,198	2,294,681
Other borrowed funds	12,272	-	45,879	-	-	58,151
Other liabilities	36,914	12,046	7,088	5,856	98,238	160,142
	2,170,898	356,304	384,215	408,536	441,992	3,761,945

20 - OPERATIONAL RISK

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

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

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

21 - SEGMENTAL ANALYSIS

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

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

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

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

	KD 000's					
	Corporate and Retail Banking		Treasury and Investment Banking		Total	
	2019	2018	**2019**	2018	**2019**	2018
Net interest income	**82,097**	81,824	**15,184**	12,033	**97,281**	93,857
Non interest income	**44,943**	44,596	**16,462**	12,474	**61,405**	57,070
Operating income	**127,040**	126,420	**31,646**	24,507	**158,686**	150,927
Impairment and other provisions	**(108,049)**	(39,229)	**(413)**	(161)	**(108,462)**	(39,390)
Net profit for the year	**(9,131)**	63,416	**9,191**	354	**60**	63,770
Total Assets	**2,409,532**	2,430,855	**2,463,696**	2,036,690	**4,873,228**	4,467,545
Total Liabilities and Equity	**1,560,721**	1,625,508	**3,312,507**	2,842,037	**4,873,228**	4,467,545

22 - OFF BALANCE SHEET ITEMS

(a) Financial instruments with contractual amounts

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

(b) Legal claims

At the date of consolidated statement of financial position certain legal claims existed against the Group and for which KD 1,660 thousand (2018: KD 1,470 thousand) has been provided.

23 - CAPITAL ADEQUACY

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

The following detailed qualitative and quantitative public disclosures are being provided in accordance with Central Bank of Kuwait (CBK) rules and regulations on Capital Adequacy Standard Basel III issued through Circular No. 2/BS/IBS/336/2014 on June 24, 2014. The purpose of these disclosures is to complement the capital adequacy requirements (Pillar 1) and the supervisory review process (Pillar 2).

Moreover, these disclosure requirements shall enable and allow market participants to assess key pieces of information about a licensed bank's exposure to risks and provides a consistent and understandable disclosure framework that enhances comparability.

I Subsidiaries and significant investments

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

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

II Capital structure

The authorised share capital of the Bank comprises of 2,500,000,000 (2018: 1,810,960,405) shares of 100 fils each. The increase in authorised share capital was approved by the Extraordinary General Meeting of the shareholders held on 23 March 2019.

Share Capital - Share capital comprises of 1,992,056,445 (31 December 2018: 1,810,960,405) subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2019, the Bank held 47,563,008 treasury shares (31 December 2018: 12,172,728 treasury shares).

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

	2019	2018
	KD 000's	KD 000's
a. Tier 1 capital consist of:		
i Common equity tier 1 (CET1)		
1.Paid-up share capital	**199,206**	181,096
2.Proposed bonus shares	**-**	18,110
3.Share premium	**66,791**	66,791
4.Retained earnings	**184,093**	184,093
5.Investment valuation reserve	**144,641**	89,524
6.Property revaluation reserve	**24,883**	24,108
7.Statutory reserve	**115,977**	115,977
8.General reserve	**17,927**	17,927
9.Treasury shares reserve	**-**	-
10.Other intangibles	**(3,506)**	(3,506)
11.Treasury shares	**(21,690)**	(4,578)
12.Non significant investments in banking, financial and insurance entities	**(108,562)**	-
13.Significant investments in banking, financial and insurance entities	**-**	(78,627)
Total	**619,760**	610,915
ii Additional tier 1		
1.Non-controlling interests in consolidated subsidiaries	**889**	833
Total	**889**	833
Total tier 1 capital	**620,649**	611,748

	2019 KD 000's	2018 KD 000's
b. Tier 2 capital.		
1.General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	**43,612**	41,813
Total tier 2 capital	**43,612**	41,813
Total eligible capital	**664,261**	653,561

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

	2019 KD 000's			2018 KD 000's		
	Gross exposures	**Net risk weighted assets**	**Capital requirement**	Gross exposures	Net risk weighted assets	Capital requirement
a. Credit risk						
1.Claims on sovereigns	**403,097**	**611**	**79**	479,649	7,648	994
2.Claims on international organisations	**-**	**-**	**-**	-	-	-
3.Claims on PSEs	**122,723**	**4**	**1**	127,582	479	62
4.Claims on MDBs	**-**	**-**	**-**	-	-	-
5.Claims on banks	**2,132,322**	**623,440**	**81,047**	1,531,081	472,457	61,419
6.Claims on corporates	**4,065,370**	**2,145,009**	**278,851**	3,762,343	2,031,093	264,042
7.Claims on central counter parties	**-**	**-**	**-**	-	-	-
8.Cash items	**30,014**	**-**	**-**	216,863	-	-
9.Regulatory retail	**477,589**	**463,080**	**60,200**	483,070	468,749	60,937
10.RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11.Past due exposure	**57**	**15**	**2**	57	13	2
12.Other assets	**162,557**	**164,615**	**21,401**	232,794	256,838	33,390
13.Claims on securitised assets	**-**	**-**	**-**	-	-	-
Total	**7,393,729**	**3,396,774**	**441,581**	6,833,439	3,237,277	420,846

	2019 KD 000's			2018 KD 000's		
	Gross exposures	Net risk weighted assets	Capital requirement	Gross exposures	Net risk weighted assets	Capital requirement
b. Market risk						
1.Interest rate position risk	-	-	-	-	-	-
2.Equities position risk	9	15	2	36	70	9
3.Foreign exchange risk	4,021	4,022	523	3,780	3,780	491
4.Commodities risk	-	-	-	-	-	-
5.Options	-	-	-	-	-	-
Total	4,030	4,037	525	3,816	3,850	500
c.Operational risk	150,592	268,297	34,879	145,226	258,665	33,626
Total	7,548,351	3,669,108	476,985	6,982,481	3,499,792	454,972

B. Capital ratios

	2019	2018
1.Total capital ratio	18.10%	18.67%
2.Tier 1 capital ratio	16.92%	17.48%
3.CET 1 capital ratio	16.89%	17.46%

C. Additional capital disclosure

1.Common disclosure template

	2019 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
Common Equity Tier 1 capital: Instruments and Reserves		
1. Directly issued qualifying common share capital plus related share premium	265,997	i+l
2. Retained earnings	184,093	r
3. Accumulated other comprehensive income (and other reserves)	303,428	j+m+n+o+p+q
4. Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5. Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
6. Common Equity Tier 1 capital before regulatory adjustments	753,518	

Common Equity Tier 1 Capital: Regulatory Adjustments		
7. Prudential valuation adjustments	-	
8. Goodwill (net of related tax liability)	-	
9. Other intangibles other than mortgage-servicing rights (net of related tax liability)	3,506	g
10. Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11. Cash-flow hedge reserve	-	
12. Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	-	
13. Securitization gain on sale	-	
14. Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15. Defined-benefit pension fund net assets	-	
16. Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	21,690	k
17. Reciprocal cross-holdings in common equity of banks, FIs, and insurance entities	-	
18. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)	108,562	f
19. Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	-	d
20. Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	-	
21. Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22. Amount exceeding the 15% threshold	-	
23. of which: significant investments in the common stock of financials	-	
24. of which: mortgage servicing rights	-	
25. of which: deferred tax assets arising from temporary differences	-	
26. National specific regulatory adjustments	-	
27. Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28. Total regulatory adjustments to Common equity Tier 1	**133,758**	
29. Common Equity Tier 1 capital (CET1) after regulatory adjustments	**619,760**	

Additional Tier 1 Capital: Instruments		
30. Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31. of which: classified as equity under applicable accounting standards	-	
32. of which: classified as liabilities under applicable accounting standards	-	
33. Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34. Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**889**	**s**
35. of which: instruments issued by subsidiaries subject to phase-out	-	
36. Additional Tier 1 capital before regulatory adjustments	**889**	

Additional Tier 1 Capital: Regulatory Adjustments		
37. Investments in own Additional Tier 1 instruments	-	
38. Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40. Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41. National specific regulatory adjustments	-	
42. Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43. Total regulatory adjustments to Additional Tier 1 capital	-	
44. Additional Tier 1 capital (AT1)	**889**	
45. Tier 1 capital (T1 = CET1 + AT1)	**620,649**	

Tier 2 Capital: Instruments and Provisions		
46. Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47. Directly issued capital instruments subject to phase-out from Tier 2	-	
48. Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49. of which: instruments issued by subsidiaries subject to phase-out	-	
50. General Provisions included in Tier 2 capital	**43,612**	**c**
51. Tier 2 capital before regulatory adjustments	**43,612**	

Tier 2 Capital: Regulatory Adjustments		
52. Investments in own Tier 2 instruments	-	
53. Reciprocal cross-holdings in Tier 2 instruments	-	
54. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55. Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56. National specific regulatory adjustments	-	
57. Total regulatory adjustments to Tier 2 capital	-	
58. Tier 2 capital (T2)	**43,612**	
59. Total capital (TC = T1 + T2)	**664,261**	
60. Total risk weighted assets	**3,669,108**	
Capital Ratios and Buffers		
61. Common Equity Tier 1 (as a percentage of risk weighted assets)	**16.89%**	
62. Tier 1 (as a percentage of risk weighted assets)	**16.92%**	
63. Total capital (as a percentage of risk weighted assets)	**18.10%**	
64. Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	**10.00%**	
65. of which: capital conservation buffer requirement	**2.50%**	
66. of which: bank specific countercyclical buffer requirement	-	
67. of which: D-SIB buffer requirement	**0.50%**	
68. Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**9.89%**	
National Minima		
69. National Common Equity Tier 1 minimum ratio	**9.50%**	
70. National Tier 1 minimum ratio	**11.00%**	
71. National total capital minimum ratio excluding CCY and DSIB buffers	**13.00%**	
Amounts below the Thresholds for Deduction (before Risk Weighting)		
72. Non-significant investments in the capital of financials institutions	**108,562**	**f**
73. Significant investments in the common stock of financials institutions	**72,832**	**e**
74. Mortgage servicing rights (net of related tax liability)	-	
75. Deferred tax assets arising from temporary differences (net of related tax liability)	-	

Applicable Caps on the Inclusion of Provisions in Tier 2

76. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**135,758**	**a+b+h**
77. Cap on inclusion of provisions in Tier 2 under standardized approach	**43,612**	**c**
78. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	
79. Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	

	2018 KD 000's	
	Component of capital disclosure template	Cross reference from consolidated regulatory financial position
Common Equity Tier 1 capital: Instruments and Reserves		
1. Directly issued qualifying common share capital plus related share premium	247,887	i+l
2. Retained earnings	184,093	r
3. Accumulated other comprehensive income (and other reserves)	265,646	j+m+n+o+p+q
4. Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5. Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
6. Common Equity Tier 1 capital before regulatory adjustments	697,626	
Common Equity Tier 1 Capital: Regulatory Adjustments		
7. Prudential valuation adjustments	-	
8. Goodwill (net of related tax liability)	-	
9. Other intangibles other than mortgage-servicing rights (net of related tax liability)	3,506	g
10. Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11. Cash-flow hedge reserve	-	
12. Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	-	
13. Securitization gain on sale	-	
14. Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15. Defined-benefit pension fund net assets	-	
16. Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	4,578	k
17. Reciprocal cross-holdings in common equity of banks, FIs, and insurance entities		

18. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)	-	
19. Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	78,627	d
20. Mortgage servicing rights (amount above 10% threshold of bank's C ET1 capital)	-	
21. Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22. Amount exceeding the 15% threshold	-	
23. of which: significant investments in the common stock of financials	-	
24. of which: mortgage servicing rights	-	
25. of which: deferred tax assets arising from temporary differences	-	
26. National specific regulatory adjustments	-	
27. Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28. Total regulatory adjustments to Common equity Tier 1	86,711	
29. Common Equity Tier 1 capital (CET1) after regulatory adjustments	610,915	

Additional Tier 1 Capital: Instruments

30. Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31. of which: classified as equity under applicable accounting standards	-	
32. of which: classified as liabilities under applicable accounting standards	-	
33. Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34. Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	833	s
35. of which: instruments issued by subsidiaries subject to phase-out	-	
36. Additional Tier 1 capital before regulatory adjustments	833	

Additional Tier 1 Capital: Regulatory Adjustments		
37. Investments in own Additional Tier 1 instruments	-	
38. Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above 10% threshold)	-	
40. Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41. National specific regulatory adjustments	-	
42. Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43. Total regulatory adjustments to Additional Tier 1 capital	-	
44. Additional Tier 1 capital (AT1)	833	
45. Tier 1 capital (T1 = CET1 + AT1)	611,748	
Tier 2 Capital: Instruments and Provisions		
46. Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47. Directly issued capital instruments subject to phase-out from Tier 2	-	
48. Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49. of which: instruments issued by subsidiaries subject to phase-out	-	
50. General Provisions included in Tier 2 capital	41,813	c
51. Tier 2 capital before regulatory adjustments	41,813	
Tier 2 Capital: Regulatory Adjustments		
52. Investments in own Tier 2 instruments	-	
53. Reciprocal cross-holdings in Tier 2 instruments	-	
54. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55. Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56. National specific regulatory adjustments	-	
57. Total regulatory adjustments to Tier 2 capital	-	
58. Tier 2 capital (T2)	41,813	
59. Total capital (TC = T1 + T2)	653,561	
60. Total risk weighted assets	3,499,792	

Capital Ratios and Buffers		
61. Common Equity Tier 1 (as a percentage of risk weighted assets)	17.46%	
62. Tier 1 (as a percentage of risk weighted assets)	17.48%	
63. Total capital (as a percentage of risk weighted assets)	18.67%	
64. Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	10.00%	
65. of which: capital conservation buffer requirement	2.50%	
66. of which: bank specific countercyclical buffer requirement	-	
67. of which: D-SIB buffer requirement	0.50%	
68. Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	10.46%	
National Minima		
69. National Common Equity Tier 1 minimum ratio	9.50%	
70. National Tier 1 minimum ratio	11.00%	
71. National total capital minimum ratio excluding CCY and DSIB buffers	13.00%	
Amounts below the Thresholds for Deduction (before Risk Weighting)		
72. Non-significant investments in the capital of financials institutions	67,060	f
73. Significant investments in the common stock of financials institutions	68,954	e
74. Mortgage servicing rights (net of related tax liability)	-	
75. Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable Caps on the Inclusion of Provisions in Tier 2		
76. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	149,607	a+b+h
77. Cap on inclusion of provisions in Tier 2 under standardized approach	41,813	c
78. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79. Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	

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

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

Consolidated regulatory financial position are as follows;

	2019 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Assets			
Cash and short term funds	856,901		
Treasury and Central Bank bonds	248,806		
Due from banks and other financial institutions	880,415	1,778	a
Loans and advances	2,266,662		
Of which: general provisions on funded exposure eligible for inclusion in Tier 2		127,337	b
Of which: Cap on inclusion of general provisions in Tier 2		43,612	c
Investment securities	559,960		
Of which: significant investment in the capital of financial institutions (amount above 10% threshold of bank's CET1 capital)		-	d
Of which: significant investment in the capital of financial institutions (amount below 10% threshold of bank's CET1 capital)		72,832	e
Of which: non significant investment in the capital of other financial institutions (amounts below the thresholds for deduction)		108,562	f
Premises and equipment	29,375		
Intangible assets	3,506	3,506	g
Other assets	27,603		
Total assets	4,873,228		

Liabilities and equity			
Liabilities			
Due to banks	585,382		
Due to other financial institutions	709,107		
Customer deposits	2,452,930		
Other borrowed funds	189,944		
Other liabilities	203,148		
Of which: general provisions on unfunded exposure eligible for inclusion in Tier 2		6,643	h
Total liabilities	4,140,511		

	2019 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Equity			
Equity attributable to shareholders of the Bank			
Share capital	199,206	199,206	i
Proposed bonus shares	-	-	j
Treasury shares	(21,690)	21,690	k
Reserves	370,219		
of which: share premium		66,791	l
of which: statutory reserve		115,977	m
of which: general reserve		17,927	n
of which: treasury share reserve		-	o
of which: property revaluation reserve		24,883	p
of which: property investment valuation reserve		144,641	q
Retained earnings	184,093	184,093	r
	731,828		
Proposed dividend	-		
	731,828		
Non-controlling interests	889	889	s
Total equity	732,717		
Total liabilities and equity	4,873,228		

	2018 KD 000's		
	Consolidated regulatory financial position	Component used in capital disclosure template	Cross reference to common disclosure template
Assets			
Cash and short term funds	858,825		
Treasury and Central Bank bonds	331,747		
Due from banks and other financial institutions	370,366	1,026	a
Loans and advances	2,253,070		
Of which: general provisions on funded exposure eligible for inclusion in Tier 2		142,212	b
Of which: Cap on inclusion of general provisions in Tier 2		41,813	c
Investment securities	548,788		
Of which: significant investment in the capital of financial institutions (amount above 10% threshold of bank's CET1 capital)		78,627	d
Of which: significant investment in the capital of financial institutions (amount below 10% threshold of bank's CET1 capital)		68,954	e
Of which: non significant investment in the capital of other financial institutions (amounts below the thresholds for deduction)		67,060	f
Premises and equipment	28,522		
Intangible assets	3,506	3,506	g
Other assets	72,721		
Total assets	4,467,545		
Liabilities and equity			
Liabilities			
Due to banks	347,100		
Due to other financial institutions	880,881		
Customer deposits	2,291,890		
Other borrowed funds	57,675		
Other liabilities	160,142		
Of which: general provisions on unfunded exposure eligible for inclusion in Tier 2		6,369	h
Total liabilities	3,737,688		

Equity			
Equity attributable to shareholders of the Bank			
Share capital	181,096	181,096	i
Proposed bonus shares	18,110	18,110	j
Treasury shares	(4,578)	4,578	k
Reserves	314,327		
of which: share premium		66,791	l
of which: statutory reserve		115,977	m
of which: general reserve		17,927	n
of which: treasury share reserve		-	o
of which: property revaluation reserve		24,108	p
of which: property investment valuation reserve		89,524	q
Retained earnings	184,093	184,093	r
	693,048		
Proposed dividend	35,976		
	729,024		
Non-controlling interests	833	833	s
Total equity	729,857		
Total liabilities and equity	4,467,545		

3 Main features of capital instrument issued

1	Issuer	Commercial Bank of Kuwait
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	CBK
3	Governing law(s) of the instrument	Kuwait Law
	Regulatory treatment	
4	Type of Capital (CET1, AT1 or T2)	Common equity tier 1
5	Eligible at solo/group/group & solo	Group
6	Instrument type	Ordinary shares
7	Amount recognized in regulatory capital (KD '000')	KD 199,206
8	Par value of instrument	100 fils
9	Accounting classification	Shareholders' equity
10	Original date of issuance	19 June 1960
11	Perpetual or dated	Perpetual
12	Original maturity date	No maturity
13	Issuer call subject to prior supervisory approval	No
14	Optional call date, contingent call dates and redemption amount	N/A
15	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
16	Fixed or floating dividend/coupon	Floating
17	Coupon rate and any related index	N/A
18	Existence of a dividend stopper	No
19	Fully discretionary, partially discretionary or mandatory	Fully discretionary
20	Existence of step up or other incentive to redeem	No
21	Noncumulative or cumulative	Noncumulative
22	Convertible or non-convertible	Nonconvertible
23	If convertible, conversion trigger (s)	N/A
24	If convertible, fully or partially	N/A
25	If convertible, conversion rate	N/A
26	If convertible, mandatory or optional conversion	N/A
27	If convertible, specify instrument type convertible into	N/A
28	If convertible, specify issuer of instrument it converts into	N/A
29	Write-down feature	No
30	If write-down, write-down trigger(s)	N/A
31	If write-down, full or partial	N/A
32	If write-down, permanent or temporary	N/A
33	If temporary write-down, description of write-up mechanism	N/A
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
35	Non-compliant transitioned features	No
36	If yes, specify non-compliant features	N/A

IV - Financial Leverage ratio

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

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

		2019 KD 000's	2018 KD 000's
1	Total consolidated assets as per published financial statements	4,873,228	4,467,545
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the bank's operative accounting framework but excluded from total exposures in calculation of leverage ratio	-	-
4	Derivative exposures	4,931	12,553
5	Securities Financing Transaction Exposures	-	-
6	Exposures for off-balance sheet items (i.e. credit equivalent amounts)	882,647	783,614
7	Other exposures	(112,068)	(82,133)
8	**Total exposures in calculation of leverage ratio**	**5,648,738**	5,181,579

(b) Leverage ratio common disclosure:

1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	4,873,228	4,467,545
2	(Asset amounts deducted in determining Tier 1 capital)	(112,068)	(82,133)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**4,761,160**	4,385,412
4	Replacement cost associated with all derivative transactions (net of eligible cash variation margin)	914	5,730
5	Add-on amounts for Potential Future Exposure (PFE) associated with all derivative transactions	4,017	6,823
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the bank's operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivative transactions)	-	-
8	(Exempted exposures to Central Counterparties (CCP)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-
11	**Total derivative exposures**	**4,931**	12,553

		2019 KD 000's	2018 KD 000's
12	Gross SFT assets (with no recognition of netting)	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposures for SFT assets	-	-
15	Exposure of the bank in its capacity as gent in the securities finance transaction (SFT)	-	-
16	**Total securities financing transaction exposures**	**-**	-
17	Off-balance sheet exposure (before application of credit conversion factors)	**2,567,462**	2,368,823
18	(Adjustments for conversion to credit equivalent amounts)	**(1,684,815)**	(1,585,209)
19	**Total Off-balance sheet exposure**	**882,647**	783,614
20	**Total exposures**	**5,648,738**	5,181,579
21	**Tier 1 capital**	**620,649**	611,748
22	**Leverage ratio (Tier 1 capital / total exposures)**	**10.99%**	11.81%

V Risk management

Risk Governance

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

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

The Risk Management Division is sub divided into different units which assess, monitor and control different risks. The Credit and Investment review unit is responsible for pre-fact assessment of corporate credit and international banking proposals including assessment of credit lines for various countries and banks and investment proposals as per the credit policy. In addition the Credit & Investment review unit is responsible for review and updating the Credit policy of the Group at periodic intervals so as to ensure that the policy is attuned to the operating environment and is in line with regulatory guidelines. Loan Review and Credit Portfolio control unit (LR&CPC), responsible to evaluate the risk profile on post approval basis, conducts post fact review of corporate credit and international banking exposures. The unit also prepares a detailed half-yearly portfolio analysis which is put up to ALCO, BRMC and the Board of Directors. In addition, Control Unit, part of LR & CPC, verifies and monitors the activities and functions carried out by Credit Administration department on an ongoing basis to ensure that credit dispensation is in compliance with the approvals as well as within internal and regulatory guidelines. Risk Management Division also oversees the functioning of Credit Administration Department to ensure that credit dispensation is in line with the approved credit terms and conditions and meets all the collateral and other requirements.

The operational risk unit is responsible for monitoring, measuring and reporting operational risks of the Group. Operational risk unit collects operational risk data through Risk & Control Self Assessment (RCSA), Key Risk Indicators (KRI), procedure reviews and reported incidents. A loss database is maintained and reported in the periodic risk management reports. Operational risk unit is also responsible for the group-wide insurance management and for coordinating the group-wide Business Continuity Plan and ensuring regular testing of the plan.

The Risk Policies and Analytics unit is responsible for monitoring market, liquidity, interest rate, strategic, reputational and legal risks. It is also responsible for calculating the economic capital for various risks, conducting stress tests, reporting these to the Asset Liability Committee (ALCO), Board Risk Management Committee (BRMC), Board of Directors and the Central Bank, keeping the risk management policies up to date and for conducting ALCO and Credit & Investment Committee (CIC) for investments items. The unit also prepares a monthly risk management report comprising of MIS on Credit portfolio, position vis a vis internal limits related to Interest rate risk, Liquidity risk, Market Risk and Operational risk which is circulated to the ALCO members. The unit also works out the PD associated with the different obligor grades to use in IFRS9 calculations. The unit also functions as a Treasury middle office where it monitors risk limits related to Treasury on a daily basis.

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

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

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

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

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

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

a. Credit Risk

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

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

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

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

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

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

The bank does not undertake securitisation of its credit exposures.

b. Market Risk

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

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

The Bank also assesses the market risk through internally developed Value at Risk (VaR) measures. VaR is based on historical simulation over the relevant observation period and is computed as the maximum possible loss over the relevant holding period at the 99^{th} percentile. Limits are in place for the maximum permitted VaR for the foreign exchange and equity positions. The VaR models are back tested annually to confirm their robustness. Economic capital for market risk is calculated using stressed ES (Expected Shortfall) in line with guidance issued by the Basel committee.

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

The market risk policy also address the need for hedging under certain circumstances. The measurement of hedge effectiveness is governed by the market risk management policy which lays down guidelines for establishment of hedge, method of determining hedge effectiveness at inception and thereafter and other general rules for hedge transactions.

c. Liquidity Risk

The Bank manages liquidity risks that are evident in maturity mismatches and liability-side concentrations. Limits are in place for the control of liquidity risk and these include the maximum allowable cumulative mismatches and a limit for maximum amount allowed for lending. Internal alert limits are also laid down to ensure continued adherence to the regulatory limits. Internal limits for liabilities from significant depositors and from sensitive products/instruments are also in place. Limits were also introduced for mismatches in different time buckets to ensure that maturing assets and liabilities remain largely matched. A detailed liability side analysis is conducted periodically to discern rollover patterns, identify core deposits, behavioral trends in short-term funds and correlations with macro economic variables.

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

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

d. Interest Rate Risk

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

e. Operational Risk

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

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

f. Other risks

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

VI - Credit exposures

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

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

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

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

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

However as a prudent and conservative measure, Bank immediately builds 100% provision and write-offs all credit facilities that are past due more than ninety days. The ECAIs used for capital adequacy computation are in accordance with CBK rules and regulations pertaining to the capital adequacy standard. The permissible ECAIs under the regulations are Moody's, Standard & Poor and Fitch. The ECAI ratings are translated into specific risk weights in line with the mapping process defined in the same regulations. The mapping process involves application of stipulated risk weights for different ECAI ratings and in case of claims on banks, into short-term and long-term exposures, as laid down in the regulations.

a. Gross credit exposures

	2019			2018		
	KD 000's			KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1.Claims on sovereigns	403,097	403,097	-	479,649	479,649	-
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	122,723	122,723	-	127,582	127,582	-
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	2,132,322	1,795,011	337,311	1,531,081	1,159,529	371,552
6.Claims on corporates	4,065,370	1,850,727	2,214,643	3,762,343	1,779,983	1,982,360
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	30,014	30,014	-	216,863	216,863	-
9.Regulatory retail	477,589	462,138	15,451	483,070	468,216	14,854
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	57	-	57	57	-	57
12.Other assets	162,557	162,557	-	232,794	232,794	-
13.Claims on securitised assets	-	-	-	-	-	-
	7,393,729	4,826,267	2,567,462	6,833,439	4,464,616	2,368,823

b. Average gross credit exposures

	2019			2018		
	KD 000's			KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1.Claims on sovereigns	441,373	441,373	-	510,104	510,104	-
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	125,153	125,153	-	123,976	123,976	-
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	1,831,702	1,477,270	354,432	1,466,246	1,123,377	342,870
6.Claims on corporates	3,913,857	1,815,355	2,098,502	3,697,800	1,762,048	1,935,752
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	123,439	123,439	-	212,076	212,076	-
9.Regulatory retail	480,330	465,177	15,153	474,192	459,594	14,599
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	57	-	57	3,144	3,065	79
12.Other assets	197,676	197,676	-	245,425	245,425	-
13.Claims on securitised assets	-	-	-	-	-	-
	7,113,587	4,645,443	2,468,144	6,732,963	4,439,665	2,293,300

c. Total credit exposures by geographic sector

	KD 000's					
	Kuwait	**Asia**	**Europe**	**USA**	**Others**	**Total**
As at 31 December 2019						
1.Claims on sovereigns	392,805	10,292	-	-	-	403,097
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	122,723	-	-	-	-	122,723
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	538,728	1,104,364	428,862	10,202	50,166	2,132,322
6.Claims on corporates	3,739,395	239,490	43,488	27,816	15,181	4,065,370
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	30,014	-	-	-	-	30,014
9.Regulatory retail	476,771	652	96	-	70	477,589
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	57	-	-	-	-	57
12.Other assets	158,945	439	3,173	-	-	162,557
13.Claims on securitised assets	-	-	-	-	-	-
	5,459,438	1,355,237	475,619	38,018	65,417	7,393,729
Percentage of credit exposure by geographical sector	73.8%	18.3%	6.4%	0.6%	0.9%	100%

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

d. Funded credit exposures by geographic sector

	KD 000's					
	Kuwait	**Asia**	**Europe**	**USA**	**Others**	**Total**
As at 31 December 2019						
1.Claims on sovereigns	392,805	10,292	-	-	-	403,097
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	122,723	-	-	-	-	122,723
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	538,623	882,052	323,825	10,016	40,495	1,795,011
6.Claims on corporates	1,693,988	152,695	-	-	4,044	1,850,727
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	30,014				-	30,014
9.Regulatory retail	461,905	163	-	-	70	462,138
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	-	-	-	-	-	-
12.Other assets	158,945	439	3,173	-	-	162,557
13.Claims on securitised assets	-	-	-	-	-	-
	3,399,003	1,045,641	326,998	10,016	44,609	4,826,267
Percentage of funded credit exposure by geographical sector	70.4%	21.7%	6.8%	0.2%	0.9%	100.0%

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

e. Unfunded credit exposures by geographic sector

	KD 000's					
	Kuwait	**Asia**	**Europe**	**USA**	**Others**	**Total**
As at 31 December 2019						
1.Claims on sovereigns	-	-	-	-	-	-
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	-	-	-	-	-	-
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	**105**	**222,312**	**105,037**	**186**	**9,671**	**337,311**
6.Claims on corporates	**2,045,407**	**86,795**	**43,488**	**27,816**	**11,137**	**2,214,643**
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	-	-	-	-	-	-
9.Regulatory retail	**14,866**	**489**	**96**	-	-	**15,451**
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	**57**	-	-	-	-	**57**
12.Other assets	-	-	-	-	-	-
13.Claims on securitised assets	-	-	-	-	-	-
	2,060,435	**309,596**	**148,621**	**28,002**	**20,808**	**2,567,462**
Percentage of unfunded credit exposure by geographical sector	**80.3%**	**12.1%**	**5.7%**	**1.1%**	**0.8%**	**100.0%**

	KD 000's					
	Kuwait	Asia	Europe	USA	Others	Total
As at 31 December 2018						
1.Claims on sovereigns	-	-	-	-	-	-
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	-	-	-	-	-	-
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	9,586	252,911	86,058	163	22,834	371,552
6.Claims on corporates	1,901,398	32,757	34,378	13,827	-	1,982,360
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	-	-	-	-	-	-
9.Regulatory retail	14,112	383	357	1	1	14,854
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	57	-	-	-	-	57
12.Other assets	-	-	-	-	-	-
13.Claims on securitised assets	-	-	-	-	-	-
	1,925,153	286,051	120,793	13,991	22,835	2,368,823
Percentage of unfunded credit exposure by geographical sector	81.3%	12.1%	5.0%	0.6%	1.0%	100.0%

f. Total credit exposures by residual 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 2019						
1.Claims on sovereigns	172,707	58,954	60,056	30,235	81,145	403,097
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	56	-	-	-	122,667	122,723
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	1,109,341	373,633	201,169	101,359	346,820	2,132,322
6.Claims on corporates	782,513	630,236	640,349	879,400	1,132,872	4,065,370
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	30,014	-	-	-	-	30,014
9.Regulatory retail	24,184	3,585	4,607	6,388	438,825	477,589
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	-	47	-	-	10	57
12.Other assets	152,850	172	4,439	28	5,068	162,557
13.Claims on securitised assets	-	-	-	-	-	-
	2,271,665	1,066,627	910,620	1,017,410	2,127,407	7,393,729
Percentage of total credit exposures by residual maturity	30.7%	14.4%	12.3%	13.8%	28.8%	100.0%

	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 2018						
1.Claims on sovereigns	155,191	42,121	81,898	41,255	159,184	479,649
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	8	-	-	-	127,574	127,582
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	769,248	231,654	43,086	152,290	334,803	1,531,081
6.Claims on corporates	1,300,177	451,253	482,867	609,836	918,210	3,762,343
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	216,863	-	-	-	-	216,863
9.Regulatory retail	6,302	3,394	4,652	6,663	462,059	483,070
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	-	47	-	-	10	57
12.Other assets	106,556	320	404	310	125,204	232,794
13.Claims on securitised assets	-	-	-	-	-	-
	2,554,345	728,789	612,907	810,354	2,127,044	6,833,439
Percentage of total credit exposures by residual maturity	37.4%	10.7%	9.0%	11.8%	31.1%	100.0%

g. Funded credit exposures by residual 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 2019						
1.Claims on sovereigns	172,707	58,954	60,056	30,235	81,145	403,097
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	56	-	-	-	122,667	122,723
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	989,554	260,325	176,091	92,304	276,737	1,795,011
6.Claims on corporates	374,658	281,895	252,051	399,139	542,984	1,850,727
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	30,014	-	-	-	-	30,014
9.Regulatory retail	22,569	1,849	1,972	2,103	433,645	462,138
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	-	-	-	-	-	-
12.Other assets	152,850	172	4,439	28	5,068	162,557
13. Claims on securitised assets	-	-	-	-	-	-
	1,742,408	603,195	494,609	523,809	1,462,246	4,826,267
Percentage of funded credit exposures by residual maturity	36.1%	12.5%	10.2%	10.9%	30.3%	100.0%

	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 2018						
1.Claims on sovereigns	155,191	42,121	81,898	41,255	159,184	479,649
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	8	-	-	-	127,574	127,582
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	610,026	147,055	29,279	123,563	249,606	1,159,529
6.Claims on corporates	312,710	256,774	341,177	413,792	455,530	1,779,983
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	216,863	-	-	-	-	216,863
9.Regulatory retail	4,874	1,382	2,376	2,247	457,337	468,216
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	-	-	-	-	-	-
12.Other assets	106,556	320	404	310	125,204	232,794
13.Claims on securitised assets	-	-	-	-	-	-
	1,406,228	447,652	455,134	581,167	1,574,435	4,464,616
Percentage of funded credit exposures by residual maturity	31.5%	10.0%	10.2%	13.0%	35.3%	100.0%

h. Unfunded credit exposures by residual 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 2019						
1.Claims on sovereigns	-	-	-	-	-	-
2.Claims on international organisations	-	-	-	-	-	-
3.Claims on PSEs	-	-	-	-	-	-
4.Claims on MDBs	-	-	-	-	-	-
5.Claims on banks	119,787	113,308	25,078	9,055	70,083	337,311
6.Claims on corporates	407,855	348,341	388,298	480,261	589,888	2,214,643
7.Claims on central counter parties	-	-	-	-	-	-
8.Cash items	-	-	-	-	-	-
9.Regulatory retail	1,615	1,736	2,635	4,285	5,180	15,451
10.RHLs eligible for 35% RW	-	-	-	-	-	-
11.Past due exposure	-	47	-	-	10	57
12.Other assets	-	-	-	-	-	-
13.Claims on securitised assets	-	-	-	-	-	-
	529,257	463,432	416,011	493,601	665,161	2,567,462
Percentage of unfunded credit exposures by residual maturity	20.6%	18.1%	16.2%	19.2%	25.9%	100.0%

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

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

	2019		2018	
	KD 000's		KD 000's	
	Past due but not impaired		Past due but not impaired	
	0-60 days	61-90 days	0-60 days	61-90 days
1.Claims on sovereigns	-	-	-	-
2.Claims on international organisations	-	-	-	-
3.Claims on PSEs	-	-	-	-
4.Claims on MDBs	-	-	-	-
5.Claims on banks	-	-	-	-
6.Claims on corporates	298,241	793	500,939	2,814
7.Claims on central counter parties	-	-	-	-
8.Cash items	-	-	-	-
9.Regulatory retail	18,075	-	20,594	-
10.RHLs eligible for 35% RW	-	-	-	-
11.Past due exposure	-	-	-	-
12.Other assets	-	-	-	-
13.Claims on securitised assets	-	-	-	-
	316,316	793	521,533	2,814

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

	2019		2018	
	KD 000's		KD 000's	
	General Provision	Statement of Income	General Provision	Statement of Income
1.Claims on sovereigns	-	-	-	-
2.Claims on international organisations	-	-	-	-
3.Claims on PSEs	-	-	-	-
4.Claims on MDBs	-	-	-	-
5.Claims on banks	1,478	452	1,026	(623)
6.Claims on corporates	119,512	100,758	133,417	33,063
7.Claims on central counter parties	-	-	-	-
8.Cash items	-	-	-	-
9.Regulatory retail	6,011	9,256	5,874	9,298
10.RHLs eligible for 35% RW	-	-	-	-
11.Past due exposure	-	-	-	-
12.Other assets	2,114	(2,004)	2,921	(2,348)
13.Claims on securitised assets	-	-	-	-
	129,115	108,462	143,238	39,390

k. Impaired loans and provisions by geographic sector

	KD 000's			
	Gross Debt	Specific Provision	Past due but not impaired	
			0-60 days	61-90 days
As at 31 December 2019				
Kuwait	-	-	316,316	793
Asia	-	-	-	-
Europe	-	-	-	-
USA	-	-	-	-
Others	-	-	-	-
	-	-	316,316	793

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

l. Movement in provisions

	2019			2018		
	KD 000's			KD 000's		
	Specific	General	Total	Specific	General	Total
Provisions 1 January	-	143,238	143,238	10,118	127,564	137,682
Write-offs	(116,922)	-	(116,922)	(112,670)	-	(112,670)
Exchange differences	-	(18)	(18)	(1)	28)	(29)
Ceded to Central Bank	-	-	-	(2)	-	(2)
Statement of income	116,922	(14,105)	102,817	102,555	15,702	118,257
	-	129,115	129,115	-	143,238	143,238

m. Credit exposures after CRM and CCF

	2019		2018	
	KD 000's		KD 000's	
	Credit Exposures after CRM		Credit Exposures after CRM	
	Rated Exposures	Unrated Exposures	Rated Exposures	Unrated Exposures
1.Claims on sovereigns	403,273	-	472,215	7,648
2.Claims on international organisations	-	-	-	-
3.Claims on PSEs	-	122,744	-	127,582
4.Claims on MDBs	-	-	-	-
5.Claims on banks	1,420,100	542,661	972,223	389,567
6.Claims on corporates	45,272	2,206,743	23,910	2,115,787
7.Claims on central counter parties	-	-	-	-
8.Cash items	-	30,014	-	216,863
9.Regulatory retail	-	466,059	-	471,429
10.RHLs eligible for 35% RW	-	-	-	-
11.Past due exposure	-	3	-	27
12.Other assets	-	162,336	-	232,470
13.Claims on securitised assets	-	-	-	-
	1,868,645	3,530,560	1,468,348	3,561,373

VII - Credit risk mitigation

Acceptable collateral includes cash, bank guarantees, shares, real estate etc. subject to specific conditions on eligibility, margin requirements etc. laid down in the credit policy. The credit risk mitigation used for capital adequacy computation include collateral in the form of cash and shares as well as guarantees by 'A' rated Banks in accordance with the CBK's rules and regulations concerning capital adequacy standard. The credit policy of the Group lays down guidelines for collateral valuation and management which includes, minimum coverage requirement for different categories of collateral, remargining, frequency and basis of revaluation, documentation, insurance, custodial requirements etc. According to the credit policy, the frequency of revaluing the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also in cases where the collateral is in a different currency to the exposure. This process is handled by a department independent of the business divisions to ensure objectivity. An independent annual analysis is conducted by Risk Management Division to categorize the shares acceptable as collateral into different grades for the purpose of stipulating differential margin requirements.

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

	KD 000's			
	Total gross exposures	**Collateralised Exposures**	**Financial Collaterals**	**Bank Guarantees**
As at 31 December 2019				
1.Claims on sovereigns	**403,097**	**-**	**-**	**-**
2.Claims on international organisations	**-**	**-**	**-**	**-**
3.Claims on PSEs	**122,723**	**-**	**-**	**-**
4.Claims on MDBs	**-**	**-**	**-**	**-**
5.Claims on banks	**2,132,322**	**-**	**-**	**-**
6.Claims on corporates	**4,065,370**	**712,498**	**215,003**	**-**
7.Claims on central counter parties	**-**	**-**	**-**	**-**
8.Cash items	**30,014**	**-**	**-**	**-**
9.Regulatory retail	**477,589**	**11,992**	**3,890**	**-**
10.RHLs eligible for 35% RW	**-**	**-**	**-**	**-**
11.Past due exposure	**57**	**-**	**25**	**-**
12.Other assets	**162,557**	**4,521**	**221**	**-**
13.Claims on securitised assets	**-**	**-**	**-**	**-**
	7,393,729	**729,011**	**219,139**	**-**

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

VIII - Capital requirement for market risk

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

The capital requirement for market risk exposure is as follows:

	2019	2018
	KD 000's	KD 000's
1.Interest rate position risk	-	-
2.Equity position risk	2	9
3.Foreign exchange risk	523	491
4.Commodities risk	-	-
5.Options	-	-
	525	500

IX - Operational risk

The Group uses the standardised approach for computation of operational risk capital charge that amounted to KD 34,879 thousand (2018: KD 20,693 thousand) which primarily involves segregating the Group's activities into eight business lines and applying the relevant beta factors to the average gross income for each business line as defined in the CBK's rules and regulations pertaining to capital adequacy standard. However, capital for operational risk is separately calculated for pillar two purposes using a variation of the standardised approach based on the results of the operational risk scorecard.

X - Equity position in the banking book

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

Equity investment securities in the Group are classified as FVOCI". These are carried at fair value with any resultant gain or loss arising from changes in fair value taken to the investment valuation reserve through the consolidated statement of comprehensive income in equity.

Fair values are determined by reference to quoted market prices. The fair value for investments in mutual funds, unit trusts or similar investment vehicles are based on last published bid price. The fair value for unquoted investments are determined by reference to any recent transaction of shares of same entity, market value of a similar investment, or at a conservative discount to its net asset value or book value.

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

	2019	2018
	KD 000's	KD 000's
1.Value of investment disclosed in the balance sheet	271,769	241,199
2.Type and nature of investment securities		
Financial assets at FVOCI		
Equity securities -quoted	246,631	215,350
Equity securities -unquoted	25,138	25,849
	271,769	241,199
3.Cumulative realised gain (net) arising from sales of investment securities	-	-
4.Total unrealised gain (net) recognised in the balance sheet but not through profit and loss account	50,587	44,926
5.Capital requirements		
Financial assets at FVOCI	56,500	44,802

XI - Interest rate risk in the banking book

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

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

	2019		2018	
	KD 000's		KD 000's	
	Impact on earnings		Impact on earnings	
	± @ 1%	**± @ 2%**	± @ 1%	± @ 2%
Kuwaiti dinars	**8,584**	**17,168**	11,572	23,144
US dollars	**2,580**	**5,160**	(880)	(1,760)
Other currencies	**1,676**	**3,352**	2,308	4,616
	± 12,840	**± 25,680**	± 13,000	± 26,000

XII - Remuneration

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

Mr. Manaf Al-Muhanna

Mr. Musaed Al-Saleh

Dr. Arshid Al Houri

The following are the main roles and responsibilities of BNRC:

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

BNRC may seek assistance for Internal Audit department or an external consultant in order to effectively accomplish its responsibilities. During the year 2019 BNRC was assisted by internal Audit department to review Remuneration Policy.

BNRC met 4 times during 2019. Remuneration paid to BNRC members for 2019 cover their memberships in other Board Committees and any other tasks assigned to them by the Board. Total remuneration KD 445 thousand (2018: KD 466 thousand) paid to members of BOD is disclosed in Bank's annual report on aggregate level according to CBK's instructions related to Corporate Governance.

Remuneration Policy

During 2019 remuneration policy was reviewed by BNRC, which submitted the updated remuneration policy to Board on 8 October 2019. The Board approved remuneration policy as submitted. No material changes were made in the last update presented to the Board.

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

The following are the key features and objectives of remuneration policy

a. Key features

The structure of remuneration of all Group's employee consists of combination of fixed and variable remuneration

- Fixed Remuneration - It is made up of basic salary ,allowance and related benefits.
- Variable Remuneration - It represents payment linked to the job requirements and performance.

b. objective

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

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

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

Performance appraisal

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

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

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

The annual bonus paid to employees is as follows:

	2019	2018
	KD 000's	KD 000's
Amount paid	**1,706**	1,234
No. of employees	**1,253**	1,115

There is no sign on awards made during the year.

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

	2019		2018	
	No. of Employees	**KD 000's**	No. of Employees	KD 000's
Amount paid to:				
Kuwaiti employees	**230**	**394**	105	754
Non Kuwaiti employees	**171**	**544**	151	899

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

	KD 000's			
	2019		2018	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Fixed				
Cash-based	**1,463**	**-**	1,223	-
Shares and share-linked instruments	**-**	**-**	-	-
Other	**-**	**-**	-	-
Total fixed	**1,463**	**-**	1,223	-

There is no variable remuneration was paid during the year.

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

	2019		2018	
	No. of Employees	**KD 000's**	No. of Employees	KD 000's
Senior Management	**14**	**1,463**	14	1,223
Material Risk Takers	**4**	**692**	4	458
Financial & Control Functions	**5**	**588**	5	445

Branches Network	Tel	شبـكـة الــفــروع
Mubarak Al-Kabir	22990001	مبارك الكبير
Abdulla Mubarak Street	22990005	شارع عبداللّه المبارك
Airport (Arrival)	22990004	المطار (الوصول)
Al-Rai	22990045	الري
Ali Sabah Al-Salem	22990042	علي صباح السالم
Al-Naeem	22990056	النعيم
Al-Rabia	22990057	الرابية
Al-Messila	22990065	المسيلة
Andalus	22990036	الأندلس
Ardhiya	22990019	العارضية
Dahiyat Abdulla Mubarak	22990059	ضاحية عبداللّه المبارك
East Ahmadi	22990014	شرق الأحمدي
Fahaheel	22990066	الفحيحيل
Fahaheel - Ajyal Complex	22990011	الفحيحيل - مجمع أجيال
Faiha	22990067	الفيحاء
Farwaniya Co-op	22990027	الفروانية (الجمعية)
Hadiya	22990064	هدية
Hawalli	22990016	حولي
Hawalli (Beirut St.)	22990020	حولي - شارع بيروت
Jabriya	22990035	الجابرية
Jahra	22990007	الجهراء
Jleeb Al-Shyoukh	22990063	جليب الشيوخ
Khaitan	22990008	خيطان
Khaldiya	22990015	الخالدية
Labour Unit	22990324	وحدة حساب العامل
Mansouriya	22990044	المنصورية
Ministries Complex	22990031	مجمع الوزارات
Omariya	22990010	العمرية
Qurain	22990024	القرين
Ras Salmiya	22990033	رأس السالمية
Regaee	22990050	الرقعي
Rumaithiya	22990018	الرميثية
Sabah Al-Salem	22990054	صباح السالم
Sabahiya	22990012	الصباحية
Salhiya	22990030	الصالحية
Salmiya	22990023	السالمية
Salwa	22990051	سلوى
Sharq	22990026	شرق
Shuwaikh	22990021	الشويخ
Six Ring Road	22990034	الدائري السادس
South Surra	22990055	جنوب السرة
Sulaibikhat	22990013	الصليبخات
Vegetable Market	22990028	سوق الخضار
Yarmouk	22990032	اليرموك

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