

## Review of Operations





### **Retail Banking Division**

Faced with increased restrictions on lending and credit extension, and mounting competition from other local banks, the Retail Banking Division concentrated efforts in 2009 on striving for excellence in customer service.

The division continued to follow its conservative lending strategy, complying and coping well with the directives of the Central Bank. As a result of restructuring carried out in 2008, and the sales culture environment nurtured by the Bank's management, our branch network rose to the economic challenges and performed well.

Retail Banking introduced a range of new products and services in 2009 including the @ Tijari, a savings account that targeted the previously untapped market of youth between ages 14 and 21. In collaboration with the American International Group, Al-Tijari offered exclusive free travel insurance to all its credit card holders, their spouses and children. Coverage included accidental death, emergency medical expenses and flight delays.

The division continued to partner with scores of local businesses to offer discounts to Al-Tijari credit card holders, raising credit card sales by up to 20 percent in 2009.

Around 250,000 ATM cards were replaced with new more secure Chip Cards in the first half of the year. Clients were encouraged to collect the new ones by entering them in a raffle on a car and by a cash back offer.

The corporate Internet banking was enhanced with more features, and the technical facilities of the call center were upgraded to accelerate service. Al-Tijari added six ATMs and three offsite ATMs, bringing the total number of the machines available to customers to 113. The mobile banking vehicles currently in service are three bringing services to customers at fingertip. Retail Banking opened branches in Dasma and Hadiya, raising the number of its branches to 55. The Bank has the second largest branch network in Kuwait. A project which aimed at modernizing and unifying the interior and exterior design of all branches was completed in 2009 with the renovation work in Khaitan and Sharq.

### **Corporate Credit Division**

In 2009, the financial crisis that shook capital and equity markets globally continued to affect the Kuwait economy. Particularly hit were investment companies as their access to funding disappeared and asset values plummeted. The real estate sector in Kuwait saw reduced activity but during the course of 2009, the government introduced an economic stimulus package to help financially troubled companies and encourage banks to extend credit to companies in an attempt to boost the economy.

The power sector saw the awarding, in the last quarter of 2009, of a landmark KD763 million contract for the construction of a power station at Subiyah. The second half of 2009 saw a noticeable increase in the tendering of substantial government infrastructure including roads, bridges and water projects, with contractors invited to bid for projects worth billions of Kuwaiti dinars. The oil & gas sector also saw numerous projects tendered or awarded for the renovation and maintenance of state-owned oil refineries.

Corporate Credit, with its team of creative and experienced professionals, was able to provide a unique pro-active personal service to its domestic and foreign corporate client base, assisting them through these challenging times.

### **International Banking Division**

The Bank's International Division adopted a more conservative policy in 2009 in light of the global financial crisis. It continued to maintain strong relationships with a network of correspondent banks worldwide, but it was more focused on serving its local corporate customers and trade-related business.

The division gave special attention to deepening its ties with foreign correspondent banks, and succeeded in reducing expenses, improving efficiency and increasing fee income.

### **Treasury**

In the difficult business environment created by the financial crisis that almost dried out liquidity on international markets, Treasury Division, in cooperation with other business areas in the Bank, doubled efforts to carry out its responsibilities of protecting the Bank's capital, managing its liquidity and maximizing yield.

Worldwide financial turmoil made liquidity management the prime focus for the divisions. In 2009, Treasury Division managed to build stronger ties with GCC banks after international banks cut drastically on providing funds. Treasury endeavored to deal with high-graded banks to protect the bank's capital. Maximizing yield was especially challenging on the back of record low interest rates.

Treasury's derivatives desk, which was set up late 2008, remained suspended till management deems circumstances are suitable to start derivative operations.

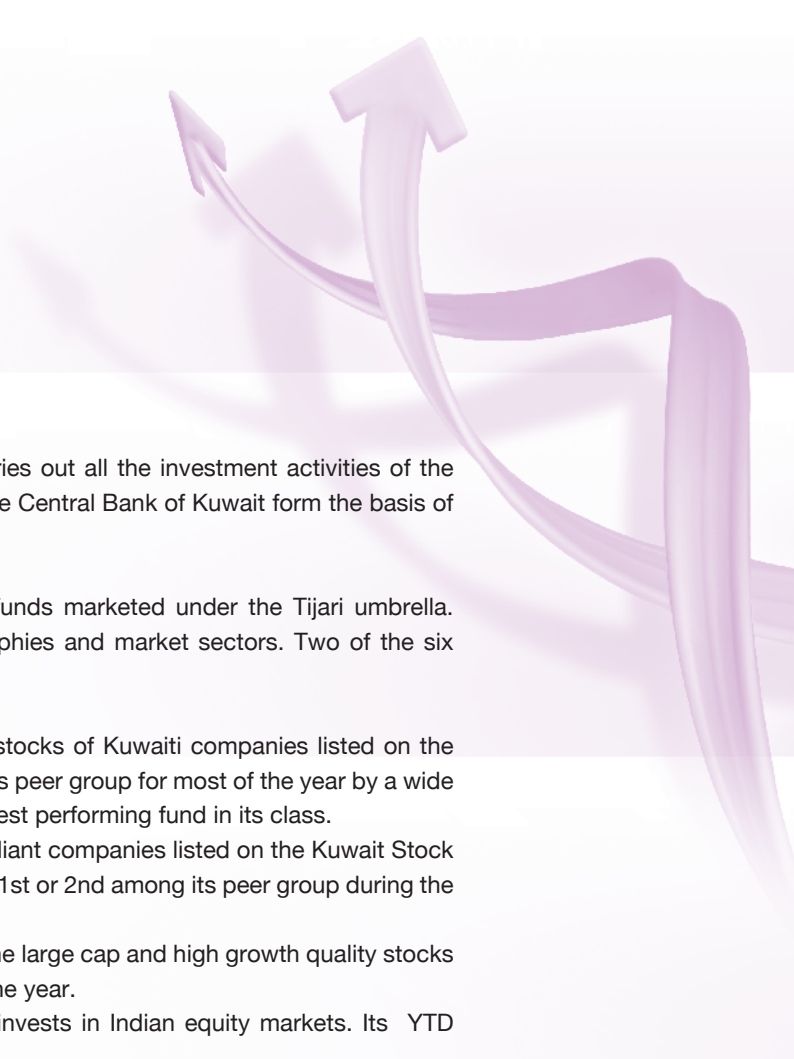
The division continued to play its market-maker role in the Kuwaiti dinar money market and the U.S. dollar/KD foreign exchange market.

### **Investment**

The challenging investment environment persisted during 2009 due mainly to the local and regional economic and market conditions. The recovery of crude oil prices and the resultant surplus in the state budget did not filter down to the local economy as expected. The real estate, investment and banking sectors, which have a large weighting on the local indices continued to face difficulties.

The Investment Department was able to make selective gains and continued to take impairment provisions where required. Fund management fees, dividends and interest income also contributed to performance.





A team of mainly Kuwaiti professionals carries out all the investment activities of the Bank. Investment guidelines laid down by the Central Bank of Kuwait form the basis of the Bank's investment policy.

Asset management activities included six funds marketed under the Tijari umbrella. These funds cover a wide range of geographies and market sectors. Two of the six funds are fully Shari'a compliant. They are:

- Tijari Investment Fund: Invests in quality stocks of Kuwaiti companies listed on the Kuwait Stock Exchange. It outperformed its peer group for most of the year by a wide margin and continued its position as the best performing fund in its class.
- Tijari Islamic Fund: Invests in Shari'a compliant companies listed on the Kuwait Stock Exchange. Was consistently ranked either 1st or 2nd among its peer group during the year.
- Tijari GCC Equity Fund: Invests mainly in the large cap and high growth quality stocks of the GCC region. It returned 15.9% for the year.
- Tijari India Fund: Fund of Funds that invests in Indian equity markets. Its YTD return was in excess of 56%.
- Tijari Money Market Fund: Invests mainly in money market funds and debt instruments.
- Tijari Islamic Money Market Fund: Invests mainly in Islamic money market funds and Islamic debt instruments.

CBK Capital, the fully owned investment subsidiary of the Bank, manages the equity funds and the Bank manages the money market funds.

### **Risk Management Division**

Risk Management provides an independent assessment of the risk taking activities of the Bank and relies mainly on the review and identification of potential risks before the approval of transactions. Such reviews enable the business groups and senior management to fully assess any risks and if required take steps to mitigate them. The Bank also undertakes ongoing reviews of existing transactions, portfolios, processes and systems to ensure that there is no materially adverse change in the risk profile.

Risk Management uses several quantitative tools for measuring risks. These include but are not limited to an objective risk assessment for obligors, Value at Risk (VaR) for market risk exposures, Earnings at Risk for interest rate risk in the banking book and key risk indicators for operational risks.

During the year, the Bank significantly enhanced its internal capital adequacy assessment process (ICAAP) under pillar two of Basel II by establishing new limits and management policies for legal, strategic and reputational risk. The Bank also substantially enhanced its stress test framework by bringing under its scope all the relevant risks and by taking

an enterprise wide approach. Independent risk consultants objectively reviewed the ICAPP and stress testing enhancements to ensure the implementation of international best practice. The executive management and the board of directors review the ICAAP and stress test results in order to ensure adequacy of capital for all applicable risks and to assess the sensitivity to extreme events and potential mitigations. The Bank intends to further strengthen the internal controls, tools and resources in order to achieve the highest possible level of risk management and governance.

### **Information Technology**

Although 2009 was financially challenging, the Bank continued to advance its technology upgrades, most importantly the core banking system. Major reviewing and restructuring of hardware and software was carried out in 2009 and new systems were introduced for increasing the security of the Bank's operations.

### **Operations Division**

The Operations Division plays a vital role in guaranteeing the smooth running of the Bank's business and keeping up with competition and the fast pace of technological developments.

In 2009, the division concentrated on implementing the Bank's new core computer system, and partially completed a project for automating the process of reporting to the Central Bank of Kuwait. It also finalized a project for scanning documents that would save time, as well as cut on the use of paper.

The restructuring of units under the Operations Division continued in the course of the year, in an effort to increase efficiency. The Division also succeeded in strengthening internal control inside departments to ensure security and reduce the possibility of fraud.

Although Operations is not at the forefront of customer service, its Trade Services Department adopted a more aggressive policy to attract new customers, and it provided many with advice and assistance on technical matters. It strove to stay ahead of competition by being innovative, reducing banking fees, providing more online facilities and constantly training its staff members on the latest technologies.

The Division's Credit Administration Department invested heavily in new technologies and continued to complement the lending divisions of the Bank with its fully automated monitoring systems including collateral, credit concentration, various control mechanisms and reporting requirements.

The Treasury Operations Department maintained its support role for the Treasury Division, Investment Department and other business areas of the Bank.





### **Human Resources Department**

The Bank firmly recognizes that people are its major source of strength to achieve its vision and strategy. The hiring of the talented and motivated people; continuing their development and retaining them are the foremost challenges in today's business environment. In line with this vision, the Human Resources Department focused in 2009 on building an expert talent base.

Our proactive Training Unit provided training and professional development programs not only to existing team members but also to new recruits in a wide variety of general and specialized internal and external training programs. These programs included the New Recruits Development Program, the Certificate in Credit Management, the Certificate in Bank Branch Management and the Certificate in Investment Management along with other professional qualifications. The aim was to equip staff with the knowledge and skills needed to enable them to take on positions of greater responsibility.

The Kuwaitisation of the workforce is a prime strategic objective of the Bank. On a regular basis, the Bank participated in the various career fairs held by Kuwait University and other private universities in Kuwait in order to attract high calibre Kuwaiti students. During the year, approximately 254 Kuwaitis were recruited, increasing the percentage of nationals employed by the Bank from 51.6% at the beginning of the year to over 60% by year end.

### **Internal Audit**

Internal Audit continued to provide independent and objective assessment of the Bank's activities and during 2009 reviewed all areas of the Bank including Treasury, Corporate Credit, International Banking, Investments, Retail Banking and Branches, Card Centre, and the Bank's subsidiaries. The review included the Bank's major information systems and IT Security and several special investigation assignments.

Reacting to the changes in the strategic and operating environment, Internal Audit re-engineered its auditing approach and processes to be operational and business risk oriented. In addition, it played a proactive role by providing value add consultation and advisory services with regard to developing best practises and corporate governance.

### **Anti-Money Laundering Unit**

Al-Tijari's Anti-Money Laundering Unit continued its efforts to ensure that the Bank is not intentionally or unintentionally used for laundering money, terrorist financing or any other criminal or fraudulent activities.

In compliance with Kuwait's anti-money laundering law and the Central Bank's instructions issued in that regard, the Unit monitored customer transactions, investigated unusual activities and reported suspicious cases to authorities.

The Unit continued to update its policies and procedures in line with international standards.

### **Legal Department**

The global financial crisis which hit international, regional and local economies in 2009 emphasized the role of the Legal Department in safeguarding the Bank against legal risks, claims and lawsuits that may arise from contracts with third parties. The Department is team of experienced and highly qualified legal advisors continued to render legal consultations to the Bank's departments and branches. The Department also drafted contracts and agreements as required by the Bank's different business functions, and represented the Bank before courts and public prosecution to protect its interests, and the rights of its shareholders and employees.

### **Construction and Property Management**

Under the Bank's ambitious expansion program, the Construction and Property Management Department completed the Construction Works of branches at Al Jleeb, Hadiya and Dasma. Branches in Sharq, Kheitan and Jahra were renovated and upgraded to comply with the Bank's prototype.

Construction of new branches in Fahaheel, Faiha and Regae is in the pipeline.

### **Advertising and Public Relations**

#### **Commercial Bank of Kuwait and Community Service**

Commercial Bank of Kuwait's continuous endeavors to offer sponsorship to all social activities comes in fulfillment of the Bank's corporate social responsibility as a leading financial institution in Kuwait. The Advertising and Public Relations Department continued its active role to demonstrate the Bank's corporate image. The Advertising and Public Relations team at Commercial Bank of Kuwait was in the heart of various social, humanitarian, health, sports and educational activities. During 2009, the Department offered sponsorship to a range of activities and events unhindered by the effects of the slowdown of the economy.

Advertising and Public Relations Department provided sponsorship to diverse activities aimed at serving people with special needs and children admitted to hospitals. Its team also participated with the handicapped in their celebrations of various occasions.

Realizing the importance of road safety issues, the Bank sponsored the Unified GCC Traffic Week. It collaborated with the Arab Towns Organization in a campaign for spreading greenery and planting trees in Kuwait. The Bank planted an olive tree in its name.

#### **Strong Presence in Conferences and Seminars**

Commercial Bank of Kuwait reinforced its presence in a number of economic and banking conferences and seminars. It sponsored the Kuwait Financial Forum organized by Al Iktissas Wal Aamal Group in collaboration with the Central Bank of Kuwait and Kuwait Banking Association. The Bank also took part in the Exhibition and Seminar of Banks and Chip Cards and actively participated in sponsoring the Third Kuwait Public Relations Conference and the Sixth Media Forum Works Exhibition.





### **Reviving the Kuwaiti Heritage**

Commercial Bank of Kuwait always endeavors to revive the rich Kuwaiti heritage which it believes should be preserved and passed to future generations. In 2009 it resumed its efforts to connect the country's past with its present and future, and issued its 2010 calendar which illustrates old Kuwaiti proverbs in 12 distinctive paintings.

### **Al-Tijari, My Choice**

Working closely with other departments, the Advertising and Public Relations Department continued its consolidated efforts to reinforce the Bank's positive image. It organized marketing and promotional campaigns to present the state-of-the-art services and products the Bank offers.

### **Corporate Governance**

#### **Framework for Governance**

The Commercial Bank of Kuwait is committed to effective corporate governance, balancing innovation, commitment and corporate citizenship with control and transparency in all its dealings.

The board of directors of the Commercial Bank of Kuwait has resolved that good faith, integrity, compliance, quality and respect must guide the conduct of directors, management and staff at all times when engaged in the Bank's business. These principles apply equally in dealings with customers, counterparties, regulatory authorities and business colleagues.

In order to apply these principles in a consistent manner, the board has approved a formal Code of Conduct, which all employees receive on commencement of work with the Bank, including a requisite entry into a confidentiality undertaking.

The corporate governance framework for the Bank includes extensive operational policies and procedures, internal and external audit and compliance procedures, effective communications, transparent disclosure, accountability and measurement.

#### **Background and Shareholders**

Commercial Bank of Kuwait is a Public Shareholding Company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. The Bank is licensed and supervised as a commercial bank by the Central Bank of Kuwait. The board of directors was aware of the following shareholders with holdings in excess of 5% of the issued ordinary share capital as of 31st December 2008:

#### **Al Sharq Holding 23.11%**

#### **Key Committees**

The following sets out in summary form the principal objectives and responsibilities of each board committee.

### **The Board Executive Committee (BEC)**

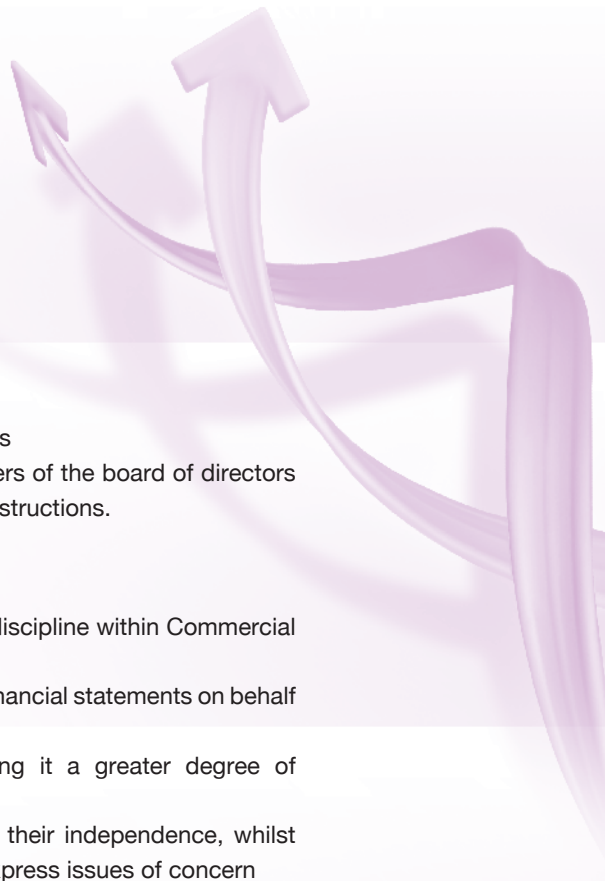
Appointment of the CGM & CEO and those who report to him or her and the Chairman & MD

- Setting of objectives and policy frameworks including those related to credit and investment
- Formulation of overall banking and operating strategy
- Review and approval of action plans and implementation
- Review and approval of the annual budget
- Review and approval of internal control policies and supervision thereof
- Performance of quarterly reviews on the implementation of the action plan, amending where necessary
- Review of actual financial performance against budget
- Review and approval of marketing, organizational and administrative matters
- Review and approval of capital and project expenditure above the Chairman & MDs authority
- Review and approval of the investment policy, recommending to the board of directors any required amendments.
- Approval of certain investments in line with the investment policy
- Review of the Executive Management Team's quarterly performance report of the investment portfolio
- Approval of the asset class allocation of the investment portfolio
- Ensuring compliance with the Central Bank of Kuwait's investment instructions and regulations
- Delegation of the Executive Management Team to execute the disposal and acquisition transactions, participation in capital increases and approve the asset class allocation of the investment portfolio
- Submission of semi-annual performance reports of the investment portfolio to the board of directors

### **The Board Credit Committee (BCC)**

- Review and approval of the credit policy and proposed amendments by the Credit Committee or Risk Management in accordance with the Central Bank of Kuwait's instructions
- Review and approval of country credit limits for credit, investment and treasury
- Review and approval of foreign exchange control within the Central Bank of Kuwait's limits
- Review and approval of Bank counterparty limits
- Review and approval of new and renewed credit facilities based on the Credit Committees recommendations and within Central Bank of Kuwait's limits
- Review and approval of fund returns, interest and fees reversal, off balance sheet transactions, write off of debts and the extension of credit limits as set out in the credit



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- policy and within the Central Bank of Kuwait's instructions
- Review and approval of credit facilities offered to members of the board of directors ensuring compliance with the Central Bank of Kuwait's instructions.

#### **The Board Audit Committee**

- Ensure a climate of effective corporate governance and discipline within Commercial Bank of Kuwait.
- Ensure the quality of financial reporting by reviewing the financial statements on behalf of the board
- Oversee and support the internal audit function, giving it a greater degree of independence from management
- Provide a framework for the external auditors to assert their independence, whilst providing a communications channel through which to express issues of concern
- Selection of the chief internal auditor
- Appoint external auditors and designate budget and special audit assignment fees
- Review any resignations by or terminations of the services of external auditors or the chief internal auditor
- Review with the external auditors the nature and scope of their audit and ensure proper coordination if more than one external audit office is involved

#### **Board of Directors**

In March 2006, shareholders elected the following as Board Members for a three-year term:

- Abdul Majeed Haji Al Shatti
- Abdul Razzak Khaled Al Wazzan
- Abdul Fatah Mohammed Rafee Marafie
- Sadek Ibrahim Marafie
- Ahmad Mohammed Al-Mishari
- Fouad Ismail Dashti
- Khaled Ibrahim Al-Raqum