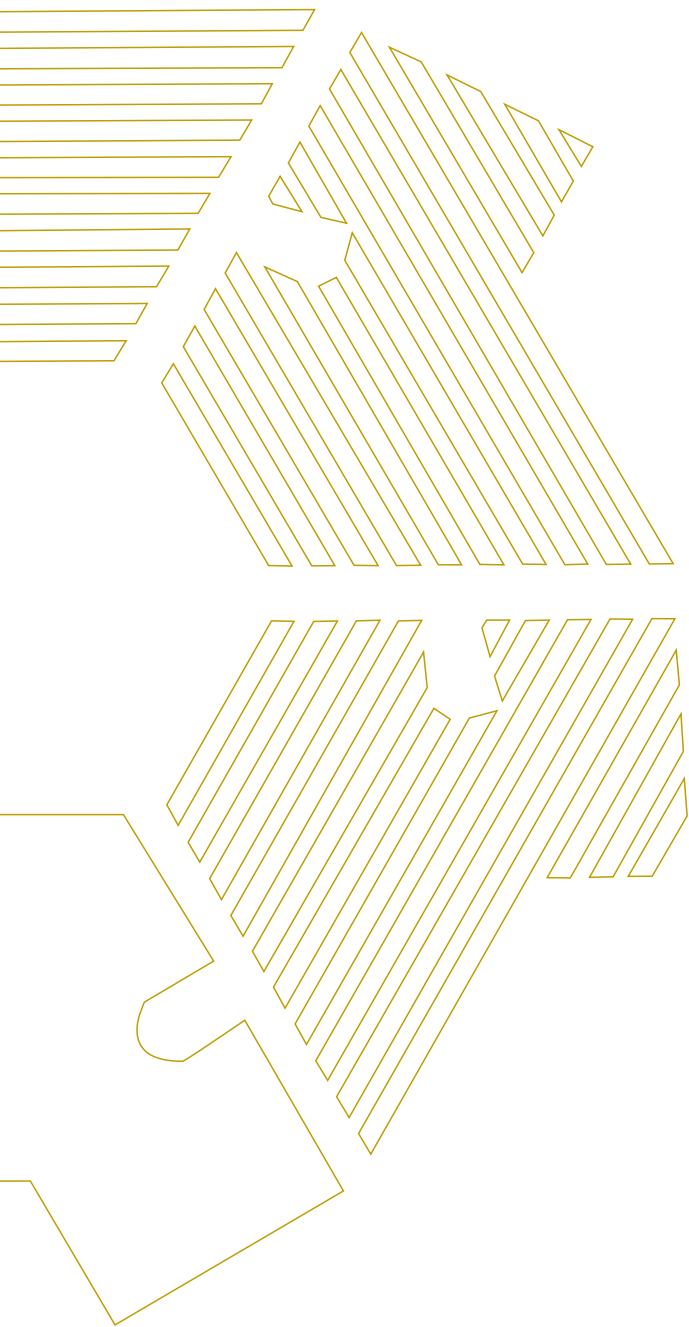




ANNUAL REPORT 2018

Partners in Industrial Development

The Industrial Bank of Kuwait



In the Name of
Allah
The most gracious
The most merciful





H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah

Amir of the State of Kuwait





H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait





H.H. Sheikh Jaber Mubarak Al Hamad Al-Sabah

Prime Minister of the State of Kuwait

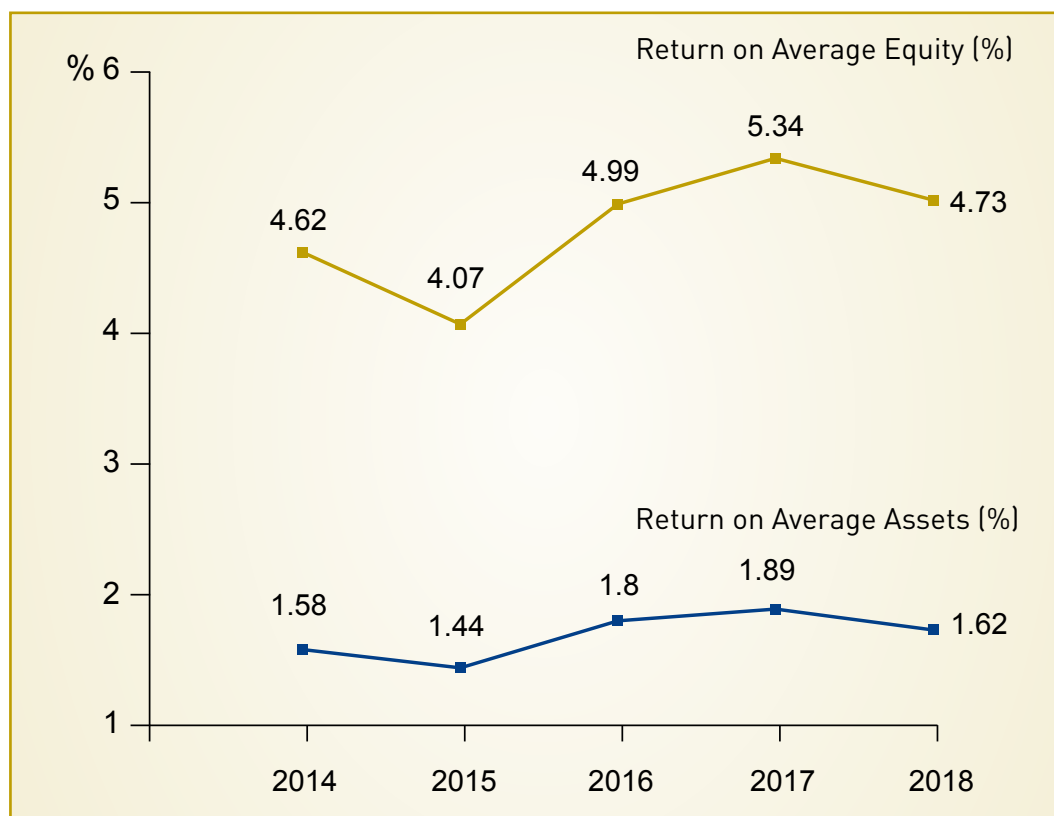
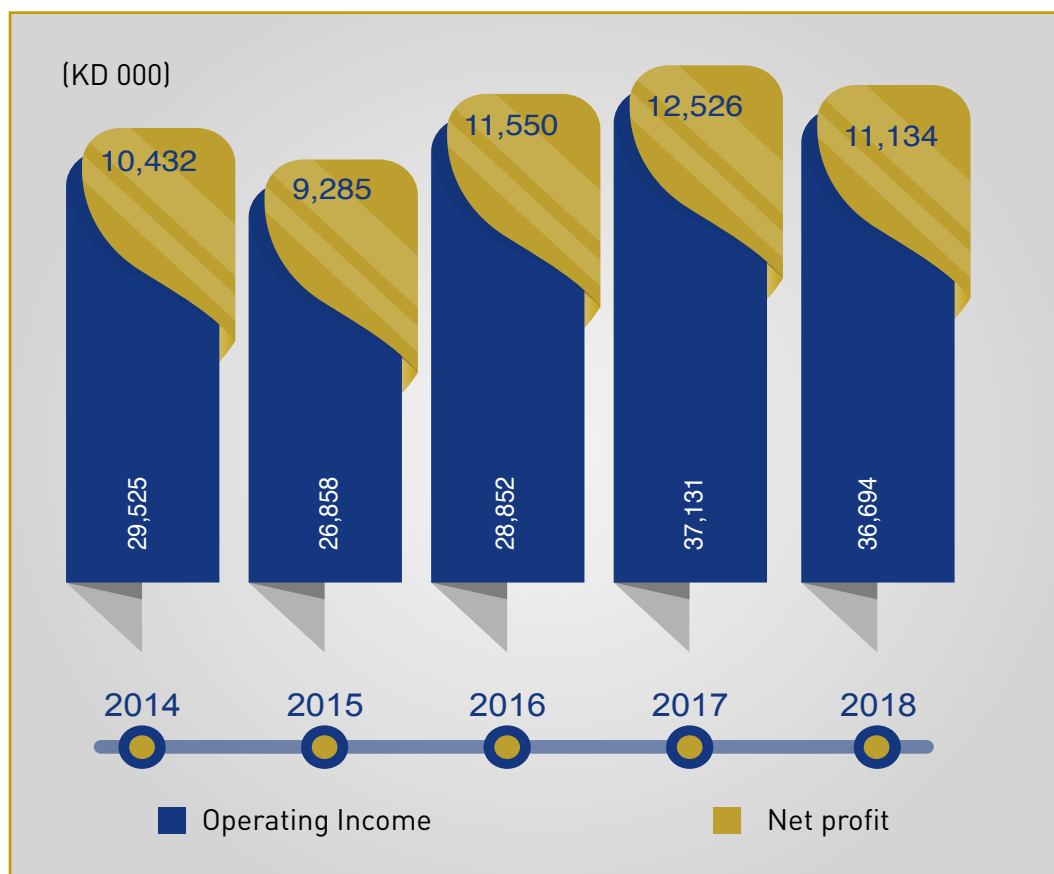
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The Industrial Bank of Kuwait was established in 1973 by the initiative of the Government of Kuwait and the private sector. It is a specialized bank dedicated to supporting industry in Kuwait, providing medium and long term financing for the establishment, expansion and modernization of industrial firms in the country. It also offers a full range of commercial banking facilities to meet the working capital needs of its industrial customers.







The Industrial Bank of Kuwait

Financial Highlights					(KD 000)
	2014	2015	2016	2017	2018
Net Interest Income	13,558	13,473	15,651	17,374	17,250
Fee and Commission Income	4,604	4,348	4,846	4,618	3,860
Net profit	10,432	9,285	11,550	12,526	11,134
Total Assets	668,003	624,028	656,301	671,271	699,405
Industrial Loans(net)	141,805	142,590	144,263	185,697	170,660
Commercial Loans(net)	120,930	126,814	159,870	159,742	161,935
Total Liabilities	439,525	395,752	422,053	436,651	462,881
Equity	228,478	228,276	234,248	234,620	236,524
Return on Average Assets (%)	1.58	1.44	1.8	1.89	1.62
Return on Average Equity (%)	4.62	4.07	4.99	5.34	4.73
Cost to Income Ratio %	32.70	35.28	33.97	37.31	28.45

Industrial Loans Commitments during (1974-2018)		
	During 2018	Cumulative 1974 – 2018
Number Of Projects	17	1,089
Total Projects Cost (KD 000)	20,075	2,207,730
IBK Finance (KD 000)	12,283	1,245,598

Credit rating: Fitch Ratings in 2018

Long Term (IDR): A+; Short Term: F1; Outlook: Stable





The Chairman's Message

On behalf of the Board of Directors of the Industrial Bank of Kuwait, it is my pleasure to present the Bank's Annual Report for year ending December 31, 2018.

By the end of year 2018, IBK has completed forty-five years of dedicated lending activities since the commencement of its operations in 1974. During these years, the Bank attained great achievements in supporting the industrial development in the State of Kuwait, and it was distinguished in its operations in achieving a balance between prudent banking services and providing the requirements of industrial development. The Bank provided finance to 1089 industrial projects for various industrial sectors with a total financing that reached KD 1.25 bn, in addition to providing complete banking facilities to its industrial clients.

The year 2018 witnessed volatile regional economic activities, due to the geopolitical tensions in the region and the uncertainty in oil prices, which resulted in the slow growth of the Kuwaiti economy. The economic indicators showed a modest growth in year 2018, as the country's GDP is expected to grow by 2.3%, and the total credit facilities from local banks showing a growth of about 4.2% in 2018 compared to the previous year. As for the credit facilities to industry, it reached by the end of September about KD 2 bn registering a growth of about 6.3% compared to the same period in year 2017.

Kuwait's rating was affirmed by Standard & Poors Rating Agency at AA for its sovereign credit with a stable outlook, supported by strong financial reserves.

For the Industrial Bank of Kuwait, the year 2018 represents the first year in its strategic business plan for the years (2018-2020), which aims at enhancing the Bank's role in supporting the industrial development, realizing the growth in industrial projects' lendings, improving the bank's services and upgrading its Banking IT systems.

During the year 2018, the Bank consolidated its efforts to achieve the targets with good performance, despite the slow growth in the economic activities and in industrial sector, which formed a challenge to the bank's business plans. However, the Bank maintained its good standing,



which was reflected by Fitch Rating in reaffirming the Bank's rating at (A+) for long-term IDR, and (F1) for short-term IDR with stable outlook.

The Bank also continued its support to the country's development plans through managing three portfolios on behalf of the government, through which they have provided credit facilities and financial services to Kuwaitis involved in the fields of small business, farming and livestock production and industrial projects. During the year 2018, the Al-Senai Portfolio for small Enterprises was able to finance 206 small business projects, with about KD 17.5 mn representing about 77% of total projects' cost. The Agricultural Finance Portfolio has granted 54 Agricultural loans for a total KD 4.1 mn. The Islamic Industrial Finance Portfolio for industrial projects has granted 2 industrial loans for a total of about KD 1.5 mn.

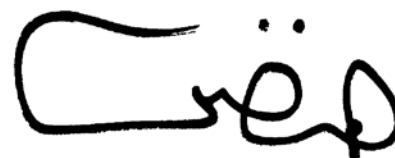
The Bank's financial statement for the year 2018 showed a stable performance, where the total assets increased by 4.2% from KD 671.3 mn in year 2017 to KD 699.4 mn in year 2018. The loans portfolio reached KD 332.6 mn by the end of 2018, a reduction of about 3.7% compared to the previous year. The Operating Income reached KD 36.7 mn by the end of 2018 registering a reduction of about 1% compared to last year. The Bank showed a growth in Net Profit before Provisions of about 10.7%, where it reached KD 25.8 mn in year 2018 compared to KD 23.3 mn in year 2017. After taking the appropriate provisions, the Bank's net profit reached KD 11.13 mn by the end of 2018.

The Industrial Bank of Kuwait presents its grateful thanks to His Highness The Amir, His Highness The Crown Prince and His Highness The Prime Minister for their gracious patronage and guidance which are of vital importance to IBK, and indeed, to the country as a whole.

The Industrial Bank of Kuwait also offers its sincere thanks to His Excellency the Minister of Finance and His Excellency the Governor of the Central Bank of Kuwait for their guidance which has always stood the Bank in good stead. To my colleagues on the Bank's Board of Directors, I would like to express my sincere thanks for their valuable input in matters of corporate policy. IBK is deeply indebted to all its staff members for their dedicated efforts during the year. To our customers and fellow financial institutions, I convey the Bank's sincere gratitude for their valued partnership, confidence and continuing co-operation.

May Almighty Allah bless all our efforts,

Musab Salem Al Nisf



Board of Directors



Mr. / Musab S. Al Nisf

Chairman (started 31/5/2018)

A representative of Kuwait Investment Authority

Head of General Managers - Al-Nisf Electrical Co.
& Salem M. Al-Nisf General Building Contracting Co. (2002)
Board Member- Kuwait Chamber of Commerce & Industry
Member of Board of Trustees -Kuwait Institute for Scientific Research
Board Member -Public Authority for Industry
Board Member - Kuwait Banking Association
Has a Bachelor degree in Accounting (1998)



Mr. / Salah M. Al-Kulaib

Vice chairman (started 2/5/1995)

A representative of the Kuwait Flour Mills & Bakeries Co.

Has a Bachelor degree in Mechanical Engineering (1977)



Mr. / Anwar B. Al Ghaith

Board Member (started 6/6/2017)

A representative of Central Bank of Kuwait

Executive Director - Information Technology & Banking Operations
Central Bank of Kuwait (2016)
Has a Bachelor degree in Accounting (1997)



Mr. / Khaled H. Al Shatti

Board Member (started 6/6/2017)

A representative of Al Ahli Bank

CEO - Fair Real Estate Co. (2011)
Board Member -Ahli Capital Investment Co.
Has a Bachelor degree in Business Administration – Finance (1988)



Mr. / Khalid A. Al-Fadhlah

Board Member (started 23/12/2014)

A representative of the Public Institution for Social Security

Deputy Director General for Social Security Affairs
The Public Institution for Social Security (2014)
Chairman of Wafra Real Estate Co.
Member of Board of Trustees-Petroleum Fund
Has a Bachelor degree in Business Administration- Marketing (1982)



Mr. / Meshal A. Al Othman

Board Member (started 6/6/2017)

A representative of the Public Institution for Social Security

Deputy Director General for Investment & Operations
The Public Institution for Social Security (2018)
Board Member - Wafra Intervest Co.
Has a Bachelor degree in Science- Major in Marketing
Minor International Studies (1996)



Mrs. / Basma A. Al-Farsi

Board Member (started 10/5/2018)

A representative of the Kuwait Investment Authority

Investment Manager - Equities Dept.
Kuwait Investment Authority (2018)
Has a Bachelor degree in Information Management Systems (2003)



Mrs. / Rasha F. Alamir

Board Member (started 10/5/2018)

A representative of the Kuwait Investment Authority

Unit Manager Portfolio Monitoring & Reporting
Kuwait Investment Authority (2017)
Board Member - Kuwaiti Egyptian Investment Co.
Has a Bachelor degree in Computer Science (1994)



Mrs. / Aljazi Ali Al-Mishwat
Board Member (started 12/9/2018)
A representative of the Kuwait Investment Authority

Specialist, Custodian Relationship - Investment Accounts Dept.
Kuwait Investment Authority (2010)
Has a Bachelor degree in Mechanical Engineering (2001)



Mr. / Talal J. Al-Khrafī
Board Member (started 11/7/2016 till 13/12/2018)
A representative of Kuwait Pipes Industries and Oil Services Co.

Chairman - Kuwait Science Club (2018)
Board Member- Kuwait Chamber of Commerce & Industry
Has a Bachelor degree in Political Science - Marketing (1998)



Sheikh / Naser D. Al Sabah
Board Member (started 6/6/2017 till 11/9/2018)
A Representative of the Kuwait Investment Authority

Legal Consultant - Kuwait Investment Authority (2010)
Has a Bachelor degree in Literature - International Relations (1995)
& a Bachelor degree in Laws (2001)



Mr. / Osama O. Al-Furaih
Board Member (started 5/7/2015 till 9/5/2018)
A representative of the Kuwait Investment Authority

Senior Investment Manager - Equities Department
Kuwait Investment Authority (2013)
Board Member - Kuwait Airways
Has a Bachelor degree in Business Administration (1997)

Board of Directors

General Responsibilities

- The Board has the overall responsibility for the Bank, including approving and overseeing the implementation of the Bank's strategic plans, risk strategy, corporate governance and corporate values. The Board is responsible for providing oversight of the Bank's senior management, including the CEO.
- The Board assumes ultimate responsibility for the Bank's business and its financial soundness, fulfilment of the Central Bank of Kuwait requirements, protecting the legitimate interests of shareholders, depositors, creditors, staff and stakeholders, and ensuring that the Bank is managed in a prudent manner and within the applicable laws and regulations and the internal policies and procedures.

Board Meetings

Members	No. of Meetings	Attendance No.
Mr. / Musab S. Al Nisf (started 10/5/2018 as a Board Member/ Chairman started 31/5/2018)	11	7
Mr. / Salah M. Al-Kulaib (started 2/5/1995)		10
Mr. / Osama O. Al- Furaih (till 9/5/2018)		3
Mrs. / Aljazi Ali Al-Mishwat (started 12/9/2018)		3
Mr. / Anwar B. Al Ghaith (started 6/6/2017)		7
Mrs. / Basma A. Al-Farsi (started 10/5/2018)		6
Mr. / Khaled H. Al Shatti (started 6/6/2017)		10
Mr. / Khalid A. Al-Fadhalah (started 23/12/2018)		8
Mrs. / Rasha F. Alamir (started 10/5/2018)		6
Mr. / Talal J. Al-Khrafī (till 13/12/2018)		4
Mr. / Meshal A. Al Othman (started 6/6/2017)		10
Sheikh / Naser D. Al Sabah (till 11/9/2018)		3

Board Committees

Governance Committee

The role of the Governance Committee is to assist the Board of Directors in fulfilling its supervisory responsibilities relating to the application of proper governance of the Bank; including establishing a set of guiding principles for corporate governance, the preparation and updating the Bank's governance guide and follow-up on the adherence with the parties involved, and provide the Board of Directors reports on this subject.

Members	No. of Meetings	Attendance No.
Mr. / Salah M. Al-Kulaib – Chairman (started 31/5/2018)	2	1
Mr. / Khalid A. Al-Fadhalah – Vice Chairman		2
Mr. / Osama O. Al- Furaih – Member (till 9/5/2018)		1
Mr. / Anwar B. Al Ghaith – Member		2
Mrs. / Rasha F. Alamir – Member (started 31/5/2018)		1
Mr. /Talal J. Al-Khrafi – Member (till 13/12/2018)		2

Audit Committee

The role of the Audit Committee is to assist the Board of Directors to fulfill its auditing responsibility, related to the following:

- The integrity of the financial statements of the Bank.
- Oversight of the financial reporting process and disclosures.
- Internal control systems and financial accounting.
- The internal audit function (including the responsibilities and the estimated Budget).
The independent annual audit of the financial statements.
- Evaluate the performance of the external and internal auditors.
- Ensuring Bank's compliance to relevant policies, rules, regulations and instructions.

Members	No. of Meetings	Attendance No.
Mr. /Talal J. Al-Khrafi – Vice Chairman (till 3/6/2018) Chairman (started 3/6/2018 till 13/12/2018)	6	5
Mrs. Rasha F. Alamir – member– (started 31/5/2018) – Vice Chairman (started 3/6/2018)		4
Mrs. / Basma A. Al-Farsi – Member (started 31/5/2018)		4
Sheikh / Naser D. Al Sabah – Member (till 31/5/2018)		2

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is to assist the Board of Directors in fulfilling its oversight on the identification of persons eligible for membership of the Board of Directors; the Committee will submit its recommendations to the Board regarding candidates to different committees. The committee is also responsible for the draft, review and update of the Remuneration policy, and assist the board in evaluating the effectiveness and fairness of the policy, and to ensure that the policy is appropriate with the strategic objectives of the Bank.



Members	No. of Meetings	Attendance No.
Mr. / Salah M. Al-Kulaib – Chairman	4	4
Mr. / Khaled H. Al Shatti – Vice Chairman		3
Mrs. / Aljazi Ali Al-Mishwat – Member (started 25/9/2018)		1
Mrs. / Basma A. Al-Farsi – Member (started 31/5/2018)		2
Mr. / Meshal A. Al Othman – Member		2
Sheikh / Naser D. Al Sabah – Member (till 11/9/2018)		1

Risk Committee:

The role of the Risk Committee is to provide advice to the Board of Directors to meet its supervisory responsibilities related to current and emerging risks, strategies and limits of risks associated with the activities of the Bank's banking and credit activities, including investment portfolio. The Risk Committee is responsible for monitoring the implementing of the risk management policies and strategies.

Members	No. of Meetings	Attendance No.
Mr. / Khalid A. AL-Fadhalah – Chairman	4	4
Mr. / Meshal A. Al Othman – Vice Chairman (till 30/5/2018)		0
Mrs. / Aljazi Ali Al-Mishwat – Member (started 25/9/2018)		1
Mr. / Khaled H. Al Shatti – Member		4
Sheikh / Naser D. Al Sabah – Member (started 31/5/2018 till 11/9/2018)		0

Finance and Investment Committee

The role of the Finance and Investment Committee is to assist the Board of Directors of the Bank to fulfill its responsibilities relating to industrial and commercial lending, and investment activity of the Bank.

Members	No. of Meetings	Attendance No.
Mr. / Musab S. Al Nisf – Chairman (started 31/5/2018)	4	4
Mr. / Salah M. Al-Kulaib – Vice Chairman		3
Mr. / Meshal A. Al Othman – Member (started 31/5/2018)		3



Protection of Shareholders' and Stakeholders' Rights Policy

Preamble

The Law No. 32 of 1968 concerning Currency, the Central Bank of Kuwait (CBK) and the Organization of Banking Business, the rules and regulations issued to banks concerning practicing their various activities including the Corporate Governance instructions issued by the CBK in June 2012, as well as the banks' Articles and Memorandum of Association and internal policies, include the controls and basis for protecting stakeholders' rights, particularly, depositors, borrowers, and shareholders. This aims at safeguarding the banks' financial positions, and triggering their roles in serving community and economic development process. A bank's final success is the outcome of the joint efforts of many parties including depositors, borrowers, staff, investors and other parties having business relationships with the bank.

Objective of the Policy

The objective of this policy is to ensure that The Industrial Bank of Kuwait ("IBK" / the "Bank"):

- Protects the rights of its shareholders including minority shareholders as well as the Bank's various stakeholders
- Provides timely and accurate information regarding the Bank including the Bank's financial position and major shareholders
- Encourages the effective participation of shareholders at General Assembly meetings and respect their rights in line with the Bank's Articles and By-Laws and the prevailing laws including the Companies Law
- Makes timely disclosures to the shareholders, regulatory bodies and the general public as per the requirements of the various regulatory bodies and relevant laws
- Provides appropriate means for shareholders and stakeholders to report any matters where their rights may have been violated by the Bank and takes the necessary corrective actions where required
- Puts in place the required controls, policies and processes to effectively implement this Policy



Effective Date

The policy shall be effective from the date it is approved by the Board of Directors.

Definitions

Shareholders

The owner of one or more shares of stock in the Bank, commonly also called a “stockholder”. A shareholder should have his/her name registered with the Bank, and may hold a stock certificate which has been signed over to him/her.

Stakeholders

Any person or entity that has a relation with the Bank is its stakeholder. Stakeholders of the Bank include the Bank’s depositors, shareholders, creditors, customers, suppliers, employees, the society and the environment, and other related parties.

Basic Rights of Shareholders and Stakeholders

Shareholders

- Rights to review and participate in the decisions related to amending the Bank’s Article and Memorandum of Association, as well as the decisions related to non-ordinary transactions which might affect the Bank’s future or activity, like mergers, sale of a substantial portion of its assets, or winding up of subsidiaries
- Rights of meeting participation, comments and recommendations (if any) on any improvements required
- Rights of contributing in the decision-making of any significant changes being made in the Bank
- Rights of expressing an opinion on the appointment of members of the Board of Directors
- Rights to have accurate, comprehensive, detailed, sufficient, and timely essential information in order to evaluate investments and make informed decisions
- Rights for receiving dividends and for participating and voting at the General Assembly meetings

Stakeholders

- Right to be treated on a just and equitable basis
- Rights to open and clear disclosures of the relevant information



Roles & Responsibilities

Board of Directors

- The Board of Directors are accountable to the shareholders and stakeholders of the Bank
- The Board of Directors must emphasize on the equitable and fair treatment of all shareholders, including minority, and give them the opportunity to question the Board and rectify any violations preventing them from exercising their rights
- The Board ensures that the Bank's bylaws, policies and practices accentuate the importance of respecting stakeholders' rights as per relevant laws, bylaws and instructions, and confirm their rights to rectify any violations of their rights in line with the relevant laws
- The Board of Directors oversee the Chief Executive Officer and other Senior Management in the competent and ethical operation of the Bank on a day-to-day basis and assure that the long-term interests of shareholders and the stakeholders are being served
- The Board of Directors have the ultimate responsibility to protect the legitimate interests of the shareholders and the stakeholders by ensuring that the Bank's business is managed in a prudent manner and is financially sound
- The Board ensures that all risks which might affect the Bank's business, particularly its shareholders and the stakeholders, are properly managed
- The Board provides an assurance that the role of the Board is not restricted only to profitability but also takes into account the risk impacts on the interests of depositors and the Bank's financial stability
- The Board encourages the shareholders to actively participate at General Assembly meetings and vote for or against any proposal put forward in such meetings. This includes, but is not limited to:
 - Notifying the shareholders of the General Assembly's date and time and agenda sufficiently before the meeting and apprising them of voting rules and procedures. Furthermore, the location and timing of the meeting should be announced for the public as per related laws, rules and regulations.
 - Disclosing the capital structure or any arrangements which might result in certain shareholders controlling the Bank.
 - Enabling the shareholders to read and review the minutes of meetings of the General Assembly meetings.
 - Preparing a statement of financial and non-financial penalties imposed on the Bank during the financial year according to Article (85) of Law No. 32 of 1968. Such statement will be read by the Board Chairperson at the Annual General Assembly meetings.
- The Board ensures that there is an effective and efficient disclosure system in place within the Bank to enable the shareholders and stakeholders to monitor the performance of the Bank and its management and exercise their rights



Chairman

- The Chairman of the Board acts as the primary spokesperson for the Board and as a representative of the Board to shareholders and stakeholders
- The Chairman presides over all shareholders' meetings and ensures that shareholders and stakeholders are adequately and sufficiently informed of the performance of the Bank and provided with the relevant information in a timely manner
- The Chairman ensures that the Bank has sound corporate governance standards in place in order to protect shareholders' and the stakeholders' rights
- The Chairman ensures that shareholders meetings are efficiently and effectively organised with the assistance of the Board Secretary
- The Chairman ensures that the Bank's management is aware of any concerns of either the Board or other stakeholders

Chief Executive Officer (CEO)

- The CEO fosters a high performance corporate culture within the Bank that promotes ethical practices, encourages individual integrity/accountability, and social responsibility
- The CEO ensures that all operations and activities of the Bank are conducted in accordance with the applicable laws, regulations, the Bank's Articles of Association, sound business practice and in accordance with the policies and practices approved by the Board
- The CEO ensures that the Bank's assets are adequately safeguarded and optimized in the best interests of the shareholders
- The CEO establishes a transparent and comprehensive management reporting mechanism to the Board of Directors on all activities and performance results of the Bank

External Auditor

- The External Auditor helps the shareholders by assuring the accuracy of the financial statements of the Bank

Disclosures

The Bank must make all disclosures as stated within the Bank's Disclosure Policy.

Policy Review

The Board of Directors shall review its policy on the protection of shareholders' and stakeholders' rights annually and shall make amendments, if deemed necessary.



The Industrial Bank of Kuwait

1- Objectives of the Bank

The Industrial Bank of Kuwait (“IBK”, or the “Bank”) was established in late 1973 by the initiative of the Government of Kuwait, as a joint venture between the Ministry of Finance, the Central Bank of Kuwait, commercial banks, insurance companies, and some large industrial establishments.

The primary goal of IBK is to promote industrial development in Kuwait by pursuing the following objectives:

- To participate in developing a long-term strategy for industrial growth in Kuwait and identifying those sectors and activities which would best suit local conditions and constraints;
- To initiate industrial projects and investments in promising sectors;
- To provide financing whether in the form of equity, medium or long-term credits for new projects, or the expansion of existing ones;
- To finance projects outside Kuwait with an emphasis on the Gulf region, especially where Kuwaiti interests are involved;
- To bring new technologies to Kuwait and identify foreign partners with the necessary expertise;
- To support the development of domestic money and capital markets in co-operation with other major financial institutions. Such a development will facilitate the channeling of private savings into industrial areas, whether in or outside Kuwait.



2- Capitalization & Ownership

The Bank was established with a share capital of KD 10 mn, which was subsequently increased to KD 20 mn, fully paid up in June 1981. IBK's shareholders and their holdings are shown in the table below:

31/12/2018

	Shareholder Name	No. of Shares	%
1	The Government of Kuwait	627,803	31.39015
2	Wafra International Investment Company K.S.C.C	361,060	18.05300
3	The Central Bank of Kuwait	251,121	12.55605
4	The Public Institution for Social Security	103,139	5.15695
5	Commercial Bank of Kuwait S.A.K.	89,686	4.48430
6	Al-Ahli Bank of Kuwait K.S.C.	89,686	4.48430
7	Kuwait Flour Mills & Bakeries Co. S.A.K.	89,686	4.48430
8	Privatization Holding Company K.S.C.	89,686	4.48430
9	Kuwait Investment Company S.A.K.	71,749	3.58745
10	Arab Investment Co. K.S.C.C	53,812	2.69060
11	Financial Assets Company Bahrain W.L.L.	49,496	2.47480
12	KAMCO Investment Company K.S.C.	17,937	0.89685
13	Bobyar Petrochemical Company K.S.C.	13,453	0.67265
14	Gimbal Holding Company S.P.C.	2,000	0.10000
15	Treasury Shares	89,686	4.48430
Total		2,000,000	100.000

The Bank provides medium-to-long term industrial loans for the establishment of new industrial units and for the expansion and modernization of existing industrial units within Kuwait; the loans are provided at a fixed interest rate of 3.5% per annum. This portfolio is financed by a long-term revolving facility of KD 300 mn that has been granted to the Bank by the Government of Kuwait by an Act of Parliament; the facility is valid for a period of 20 years up to September 2027. Besides industrial loans, the Bank also provides a wide range of working capital facilities to industrial customers on commercial terms.



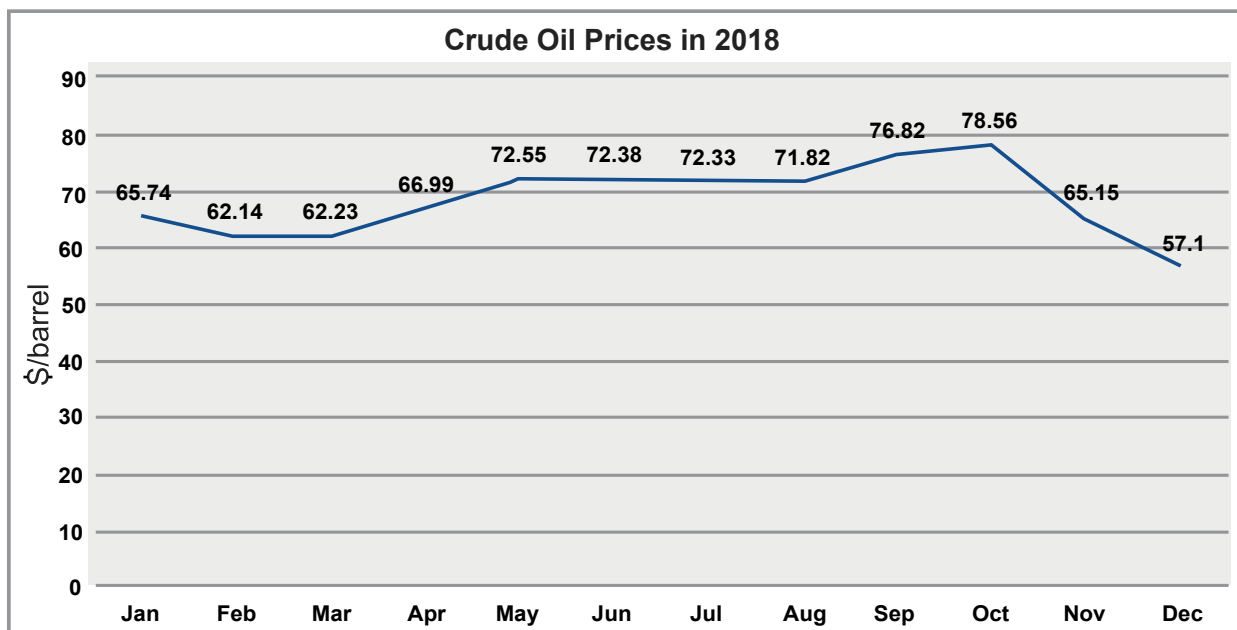
Kuwait's Economy in 2018

Standard & Poors Agency has affirmed Kuwait's Sovereign Credit Ratings at AA with a stable outlook. This is supported by strong Kuwait's public and external balance sheets backed by a significant stock of financial assets.

The government has launched in year 2017 “**The Kuwait vision 2035**” outlining the long-term economic development plan priorities, covering five themes and seven pillars through which it aims to achieve effective government administration, diversified and sustainable economy, distinguished international standing, advanced infrastructure, high standard health care, creative human capital and sustainable livelihood. The most important of these priorities is to support and develop the economic sectors to reach a diversified and sustainable economy achieved through the structural economic reform plan. To overcome the challenges and obstacles facing the development of the economic sectors, a number of programs have been identified among which the program for creating the business environment for private sector and raising its contribution to Gross Domestic Product (GDP) by diversifying the production base and increasing the rates of investment, which aims at increasing the contribution of non-oil sectors including the industrial sector in GDP, through the implementation of strategic projects to increase employment opportunities and productivity such as incubator projects for small and medium enterprises, environmental fuel project and the integrated refining complex project.

The development plan for years (2015/2016-2019/2020) aims to increase the private sector's contribution to GDP from 25% to 41% by the end of the plan.

The Kuwaiti economy in year 2018 was characterized by slow growth, due to the instability of oil prices and the geopolitical tension in the region.



Source: OPEC Monthly Oil Market

The State Budget for fiscal year (2018/2019) was approved with an estimated revenues to reach KD 15 bn and projected spending at KD 21.5 bn. Oil revenues were accounted for 88% of total revenues and were estimated at oil price of 50 \$/barrel and production volume of 2.8 mn barrels/day. By the end of Jan.2019, the actual budget surplus for fiscal year (2018/2019) reached about KD 1.59 bn, after deducting for the future generation, where the expenditure reached KD 13.71 bn and total revenues registered KD 17 bn.

Estimated & Actual Budget for the year 2018/2019 (KD mn)

	Estimated 2018/2019	Actual till Jan. 2019
Oil revenues	13,317*	15,867
Non-oil revenues	1,772	1,145
Total revenues	15,089	17,013
Future Generation reserves **	1,509	1,701
Expenditures	21,500	13,718
Surplus (Deficit) Before deducting for the future generation	(6,411)	3,294
Surplus (Deficit) After deducting for the future generation	(7,911)	1,592

* Oil revenues were estimated at oil price of 50 \$/barrel and production volume of 2.8 mn barrels/day.

** Representing 10% of the Total revenues.

The government in its strategic business plan for year (2018/2019) is working to implement about 21 strategic projects with a budget totaling about KD 24 bn. These projects include Alzoor refinery project, Clean Fuel project, Olefins and Aromatic projects, Kuwait Airport, railway project, Solid Waste Recycle projects and residential cities and hospitals. These projects aim to increase the private sector participation and to create job opportunity to the Kuwaiti labor force.

The preliminary data of Kuwait national accounts showed a drop in **Real GDP** of 3.56% in year 2017, compared to previous year. Real GDP reached in 2017 about KD 39.3 bn, compared to KD 40.7 bn in year 2016. The International Monetary Fund (IMF) estimated Kuwait Real GDP to grow in medium term backed by the implementation of major strategic projects in medium-term plan and a gradual increase in average oil prices. The Real GDP projected to increase at a growth rate of 2.3% for year 2018 to reach KD. 40.2 bn, Oil GDP will represent about 54% of total GDP in 2018, supported by an average oil price of about \$ 70/b and average production of 2.81 million b/d.



As for the **credit facilities** provided by local banks to the private sector, represented by the cash portion utilized by these facilities, it reached KD 36.9 bn by the end of 2018, a rise of 4.2% compared with KD 35.4 bn for the end of year 2017.

Distribution of credit facilities by sector in 2018

Sector	Balance (KDmn)	% Total facilities
Industry	1,994	5.4
Trade	3,284	8.9
Construction	1,992	5.4
Personal services	15,852	42.9
Real Estate	8,263	22.4
Other	5,523	15.0
Total	36,906	100

Source: Central Bank of Kuwait

In 2018 the **Central Bank of Kuwait** maintained the discount rate at 3.0%, due to the continued weak growth in both economic activities and banks' credit facilities. At the same time, to ensure competitiveness and attractiveness of the national currency, the Central Bank raised the interest rate on deposits in Kuwaiti Dinars, this is in addition to its directives to increase the lending limits to consumers and personal loans. These financial policies have reflected positively on the operating revenues of the banks, and it is projected that the banks will realize a good growth in their 2018 profits of about 12% compared to previous year.

Kuwait Manufacturing Sector

Kuwait's development plan for the years (2015-2016-2019-2020) aims to increase the real growth rate of the manufacturing sector, and restructure the sector to encourage the promising industries with high value added, and to increase the private sector's investment in industry.

However, most of the economic indicators of the industrial sector are below satisfaction. The contribution of GDP industry without refinery did not exceed 4.8% of total GDP, and the growth rate for the past four years was only about 1.6%. The value of investments in fixed assets are still low compared to investments in other economic sectors, the fixed capital formation in manufacturing sector was about 5% of total capital formation. This is in addition to the continuous problem of lack of industrial plots of land.

The Public Authority for Industry seeks to implement a number of projects and industrial development programs which include: the construction, completion, operation and maintenance of the infrastructure of the Al - Shadadia industrial area with a total area of 4.5 Km², which aims at creating an industrial zone with the basic requirements for the settlement of industries. It will include 700 industrial plots after allocating 10% of the area for the National Fund for Small and Medium Enterprise Development projects, and another 10% for the Kuwait Direct Investment and Promotion Authority projects (KDIPA). The infrastructure is expected to be completed beginning of 2020 which will follow the construction of factories in that year. In addition to the project of designing, constructing and completing of the Al-Naaim Industrial area of 8 km², which will include 1500 industrial plots of lands, the preparation of the infrastructure will start in 2020.

As for the number of industrial establishments, according to PAI annual report (2016/2017), the number of existing industrial establishments reached 947 at the end of 2016 and the industrial handcrafts reached 2629 at the end of 2016. And the following table shows the number of industrial establishments and handcrafts:

Industry	Number of licensed Industrial Establishments	Number of licensed Industrial Handicrafts
Food & Beverages	118	688
Textiles	30	134
Wood & Wood products including Furniture	75	313
Paper & Printing	69	198
Chemical Products	175	132
Non-Metallic Minerals	211	97
Basic Metals	78	--
Fabricated Metal Products	176	1029
Other manufacturing	15	38
Total	947	2,629



The latest data published by the Central Statistical Bureau (year 2017), as shown in the following table, compares the manufacturing sector GDP during years 2016-2017. The data registered growth of about 5.3% in all sectors in 2017.

The Chemical Product's sector having the highest contribution representing about 43% of total manufacturing GDP, showed an increase by 5% in 2017 compared to year 2016. The Fabricated Metal products sector has about 16.2% of total industry GDP, grew about 2.6% in 2017 compared to year 2016. Also the Food and Beverages sector registered a growth of about 7.7% in 2017 compared to last year.

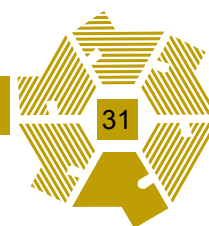
Manufacturing Sector GDP

	2000		2016 *		2017**	
Industry	GDP KD mn	% Mfg. Sector GDP	GDP KD mn	% Mfg. Sector GDP	GDP KD mn	% Mfg. Sector GDP
Food & Beverages	68.8	23.0	183.1	12.0	198.3	12.3
Textiles	35.6	11.9	83	5.4	91	5.6
Wood & Wood products including Furniture	13.2	4.4	40.6	2.7	44.4	2.8
Paper & Printing	28.2	9.4	82.2	5.4	86.2	5.3
Chemical Products	36.9	12.3	658.5	43.1	693.8	43.0
Non-Metallic Minerals	45.2	15.1	152.9	10.0	161.3	10.0
Basic Metals	4.7	1.6	57.1	3.7	59	3.7
Fabricated Metal Products	60.2	20.1	254.8	16.7	261.7	16.2
Other manufacturing	6.9	2.2	15	1.0	16.7	1.0
Total Manufacturing GDP (Current Prices)	299.7	100.0	1,527.2	100.0	1,612.4	100.0

* Revised data

**Preliminary data

The manufacturing sector witnessed structural changes during the period from year 2000 to year 2017. This is due to the difference in annual growth rates in the GDP of various industrial activities because of the concentration of the private sector on the promising industries with high value added. The relative weight of industrial activities has been changed, such as the decline in the activity of the Food and Beverage industries, decreased from 23% to 12.3%, while the activity of the Chemical Products sector increased from 12.3% to 43% during the same period.





MANAGEMENT REPORT 2018



Mr. Ali A. Khajah
Chief Executive Officer CEO

The Bank during 2018, continued the implementation of its strategic business plan for the years (2018-2020), which aims to achieve the Bank's vision in enhancing its core activities to support the country's development programs related to the industrial sector. The Bank continued providing industrial loans and banking facilities to industrial projects, improving its services to clients, completing the upgrading of its banking IT systems and building the Bank's industrial database.

The Bank consolidated its efforts to maintain a good and stable performance, despite the continued modest growth in the industrial sector in year 2018. The Bank's total assets have increased by 4.2% to reach KD 699.4 mn in 2018. The loans portfolio reached KD 332.6 mn by the end of 2018, a reduction of 3.7% compared to the previous year. The non-performing loans ratio (NPL) has increased to 2.29% in year 2018, compared to 0.16% in year 2017. Total operating income reached KD 36.7 mn in year 2018 registering a reduction of 1.0% compared to previous year. After taking the appropriate provisions, the Bank's net profit reached KD 11.13 mn by the end of 2018, registering a reduction of about 11.1% compared to the previous year.

Internal Control Systems

Based on the Board of Directors' instructions and according to the Central Bank of Kuwait requirements, the Bank management placed an effective system for the Internal Control for the Bank's major activities and operations. The management was keen to apply the systems that regulate the soundness of accounting records, all Bank's operations, and ensure protection from banking risks.

The Board of Directors, through its Risk Committee, reviews and approves the suitable adjustments on the Bank's policies on an annual basis to be distributed to all staff involved in the operational activities. The department managers and heads of sections are responsible for verifying compliance with approved operational procedures to their activities.

The Bank's Internal Audit reviews the suitability and adequacy of the Internal Control Systems on a regular basis and determines the extent of compliance with those policies and procedures. The head of the Internal Audit reports directly to the Board of Directors and the Audit Committee.

Based on the Internal Audit's reports that assess the effectiveness of the Internal Control Systems, the Self-Assessment reports for operational risk that are undertaken by the bank's Risk Management Unit, and the financial reports for the year 2018, the Bank's management has found no significant defect in the Bank's Internal Control Systems.



Industrial loans

During the year 2018, the bank has approved 17 long-term industrial loans, 15 for expansion projects, one for new project, and one for cost overrun project.

The total industrial loans commitments reached KD 12.3 mn in 2018, with a total projects' cost of about KD 20 million. The total industrial loans financing during the year represented %61.2 of total projects cost.

Loan Commitments During 2018

Sub-Sector	No. of Projects	Total project Cost	IBK Financing	Finance Share %
		(KD 000)		
Manufacture of paper and paper products	1	160	160	1.3
Manufacture of coke and refined petroleum products	1	545	320	2.6
Manufacture of chemicals and chemical products	1	920	602	4.9
Manufacture of rubber and plastic products	2	2,123	1,477	12.0
Manufacture of other non-metallic mineral products	4	5,944	3,053	24.9
Manufacture of basic metals	1	1,000	800	6.5
Manufacture of fabric metal products, except machinery and equipment	1	100	100	0.8
Manufacture of machinery and equipment	1	3,440	1,926	15.7
Manufacture of furniture	2	4,018	2,620	21.3
Repair and installation of machinery and equipment	2	1,500	1,004	8.2
Office administrative, office support and other business support activities	1	325	221	1.8
TOTAL	17	20,075	12,283	100.0

The table indicates that the Manufacture of other non-metallic mineral products (building materials) ranked first, accounting for 24.9% of industrial loans commitments in year 2018, this is due to financing 4 industrial projects for a financing amount of KD 3,053 million; while manufacture of furniture came second representing 21.3% of industrial loans commitments in year 2018.



Industrial Loan Commitments during 2014-2018

	2014	2015	2016	2017	2018	Cumulative 1974 - 2018
Number of industrial Loans	19	26	28	27	17	1,089
Total Cost of Projects Financed (KD 000)	67,732	79,255	92,365	86,047	20,075	2,207,730
Total loan Commitments (KD 000)	49,286	57,251	63,879	56,038	12,283	1,245,598
Percent of Commitments-to-Total Project Costs (%)	73	72	69	65	61	56.4
Average Project Cost (KD 000)	3,565	3,048	3,299	3,187	1,181	2027
Average IBK Financing/project (KD 000)	2,594	2,202	2,281	2,075	723	1144

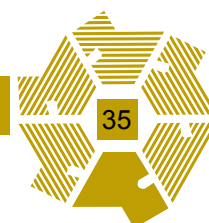
Cumulative industrial loans commitments since the bank commenced lending operations in year 1974 until end year 2018 reached KD 1.246 bn, representing 56.4% of the aggregate project costs of KD 2.208 bn for 1,089 projects financed by IBK.

Commercial Lending

The Bank continued, during 2018, its corporate financing activities in offering a full range of commercial banking facilities to the industrial clients in Kuwait by providing a full range of banking facilities such as working capital, project finance, short/medium term loans, etc. The Bank also provides bridge financing to industrial clients pending approval / disbursement of long term industrial loans. The facilities granted by the Bank are priced at market rates. In addition, the Bank is also responsible for the establishment and monitoring of treasury lines to domestic and international banks and financial institutions.

During 2018, the portfolio witnessed an increase of 1.63%, growing from KD 174.488 mn as of end 2017 to KD 177.333 mn at end of year 2018. This increase (in cash facilities) was mainly due to new clients, and increase in facilities to existing clients. The portfolio also witnessed an increase in non-cash facilities of 5.54% compared to last year, increasing from KD 88.535 mn as of end 2017 to KD 93.437 mn end of 2018 as a result of financing new projects and contracts.

The Bank also continued granting facility packages to existing as well as new customers, particularly in the petrochemical, construction, engineering, metal and food products sectors. Following its policy of primary focusing on the domestic market, as the activity on the international side was on low-key during 2018.



Direct Investment

The Bank during 2018, continued investing in promising opportunities within the Private Equity space with existing fund managers as well as establishing new relationships with carefully selected fund managers who enjoy consistent top-quartile track record within their Asset Class. Further, the Bank has been actively screening & exploring direct investment opportunity in the local industrial sector. As a result of the Bank's local and international activities, the investment book of the bank has increased by 14.33% reaching KD 112.33 mn in 2018 compared to KD 98.25 mn in 2017.

Moreover, the Assets Under Management grew by 26.67% reaching KD182.67mn in 2018 compared to KD 144.21 mn in 2017.

In addition, the positive performance of Private Equity Funds led to exceptional performance in the investment portfolio. The Bank will continue to carefully explore lucrative local and international investment opportunities in the industrial and industrial related sectors, supporting Kuwait's strategic development plan and pursuing the Bank's objective of actively participating in new industrial projects and activities.

Treasury and Securities

The Bank's Treasury & Securities activities pursued its business activities during the year 2018 in the deposits and Foreign Exchange market and Fixed Income Securities market that could ensure risk free returns and to make positive contributions to the Bank's overall profit.

Treasury devised a solid strategy to ensure stable growth and attractive returns by expanding our portfolio by increasing our holding of CBK bonds, fixed income Securities and money market deposits. The Bank utilized the opportunities in the market to achieve above target trading results. The Bank was active in catering to the foreign currency needs of its customers by providing competitive rates and rate forecasts while meeting its foreign currency needs through active participation in the foreign exchange market.

The Bank has extended to both domestic and international markets for finding the long-term foreign currency investments and to enhance its funding profile by seeking further funding sources. During the year, Treasury secured a three-year bilateral fixed rate loan for € 45 mn and a three-year bilateral floating rate loan for \$ 50 mn from global financial institutions.

Furthermore, by the constant efforts of the Assets, Liabilities and Investment committee, the Bank managed to implement CBK's instructions to its operations, which guided the Bank to control market risks and liquidity risks, besides predicting future trends of foreign exchange prices and interest rates in the financial markets.



Research

During the year 2018, the bank conducted several market research studies on various industrial products in Kuwait to determine the viability of producing these industrial products locally, through analyzing the supply and demand in the local market, and the degree of competitiveness between local and imported products, elements of marketing mix and estimating the market share of the new products. The Bank published a sectoral study on “The Performance of Building Materials Sector” and completed a special study on “The Industrial Sector and its Participation in the Economic Developments, and IBK share” and the periodical reports named “The Bi-Annual Economic Review”, in addition to other special reports. Also completed a study on “The Effects of Interest Rates change on The Economy”, and updating the Built-Up Area data. Moreover two special studies are under preparation namely: “IBK’s Industrial Clients Base” and “Products Diversification in Industry”, and a special project under preparation named “IBK’s Industrial Database”, and the ongoing preparation of the guide “The Industrial Establishments approved for financing by the Industrial bank of Kuwait during 1974-2018”

The Bank regularly updated and expanded its industrial database on markets and industry in Kuwait and the GCC countries, through field visits to factories and participation in conferences, seminars, workshops and exhibitions. The Bank also continuously builds its updated archive with latest market research studies, statistical data and new industrial guides to be utilized for the Bank’s studies.

Portfolio Management

The Industrial Bank of Kuwait manages three portfolios on behalf of the Government of Kuwait, namely: Al-Senai Portfolio for Small Enterprises which corpus was increased to KD 150 mn, The Agriculture Finance Portfolio with a corpus of KD 50 mn, and The Islamic Industrial Finance Portfolio with a corpus of KD 100 mn.

The Al Senai For Small Enterprises Portfolio Objective are to finance Kuwaiti nationals who wish to setup their own business, through Islamic instruments such as Murabaha, Leasing and Stesna etc..

During the year 2018 the portfolio had Financed 206 projects their total cost reached KD 22.7 million with a finance of K.D 17.5 mn representing 77 % of the total cost of projects.

The cumulative amount of loans from the start of the portfolio to the end of 2018 was around KD 153 mn, for 1704 projects with a total cost of KD 202 mn.



The following table shows the details of portfolio financing during 2018:

Financing by Al Senai for Small Enterprises Portfolio, 2018

Activity	No. of projects	Projects Cost	Portfolio financing	Finance share (%)
		(KD)		
Manufacturing	29	4,353,035	3,364,475	19.20
Accommodation and food service activities	54	7,083,184	5,306,777	30.29
Wholesale & Retail trade	48	2,554,100	2,114,688	12.07
Human health and social work activities	10	2,820,077	1,854,439	10.58
Professional, scientific and technical activities	8	304,118	249,160	1.42
Other service activities	8	514,131	394,977	2.25
Information and communication	7	498,244	414,852	2.4
Arts, Entertainment and recreation	4	661,976	526,220	3.00
Administrative and support service activities	24	2,844,565	2,385,362	13.61
Education	3	357,894	243,215	1.4
Construction	3	175,844	155,094	0.88
Transportation and storage	8	558,380	508,516	2.90
Total	206	22,725,548	17,517,775	100

The previous table indicates the relative importance and weight of the different sectors financed by the portfolio. Accommodation and food service activities has the highest share, its share reached 30.29 % of the total finance provided by the portfolio, followed by Manufacturing activities with a share of 19.20 % and then Administrative and support service activities with a share of 13.6 % then Wholesale & Retail trade with a share of 12.07%, These four sectors represent 75.16 % of the total financing by portfolio in 2018.

The Agricultural Finance Portfolio, which aims to provide finance to a wide range of farming and farm related activities such as vegetable production, poultry, dairy, cattle and fisheries production, in addition to cold storage refrigeration and transportation of farm products.

The agricultural loans committee approved to grant 54 agricultural loans during 2018. The total project cost is estimated at KD 8.2 mn however, the agricultural portfolio's contribution was KD 4.1 mn, representing 50% of the total cost.



Agricultural Portfolio Financing during 2018

Sector	No. of projects	Total Projects Cost (KD)	Agricultural portfolio financing (KD)	Finance Share (%)
Planting	28	5,197,170	2,842,000	69.0
Fisheries	11	416,940	232,000	5.6
Integrated Farm	7	963,200	532,000	13.0
poultry	2	329,000	199,000	4.8
Food Security	2	219,150	100,000	2.4
eggs	1	845,837	150,000	3.7
Short Term Loans (All Sectors)	3	242,168	60,000	1.5
Total	54	8,213,465	4,115,000	100.0

The previous table indicates that the planting sector has the highest agricultural financing to the total financing around 69%. The Integrated Farm comes second with 13%.

The Cumulative amount of loans from the agricultural Financing portfolio, from 2001 to the end of 2018, reached KD 125.8 mn for 794 loans.

The Islamic Industrial Finance Portfolio has an objective to provide financial assistance for industrial projects and services in compliance with Islamic Shari'a such as Murabaha, Istisna'a, and Ijara (Leasing). During the year 2018, the portfolio financed 2 expansion projects, one in Chemical Products sector (detergents) and the other project in building materials sector (Ready Mix Concrete), with a total cost of KD 1.853, in which the portfolio's finance reached KD1.482, representing 80% of the total cost.

Cumulative industrial loan financing commitments since the portfolio commenced its financing operations in year 2009 until the end of 2018 reached KD 43.6 mn, represented to 28 Industrial projects.

Cumulative Finance Commitments during 2009 – 2018

	During year 2018	Cumulative 2009 – 2018
Number of Projects	2	28
Total Projects Cost (KD 000)	1,853	117,837
Portfolio Finance (KD 000)	1,482	43,577



Information Technology

In year 2018, the Bank's Information Technology (IT) activities has contributed to the organization through the stabilization of Core Banking system, which enabled the Bank to conduct its operations efficiently.

To better align the IT activities with the business units, several changes were taken by the bank: The IT Steering Committee was restructured with a new mandate to oversee the IT strategy and projects. The IT department has also undergone an organizational restructuring project, which maps the business needs with IT resources. Moreover, Project Governance was introduced with adoption of Project Management Framework for all new projects.

IT started using a new demand management system to document and consolidate the business units' requirements and allow senior management to view and prioritize projects and reports.

Human Resources and Corporate Social Responsibility

In year 2018, the Bank continued its efforts to develop the Bank's human resources to become the driving force for the Bank's business and services development, and to achieve the Bank's goals in the development of the industrial sector.

The Bank worked during 2018 to recruit and employ new Kuwaiti graduates and experienced professionals in relevant fields to the Bank's activities. The Bank participated in 51 specialized training programs for its employees, attended by 334 Bank employees. These programs intended to develop their knowledge and technical skills in the banking business. In addition to training the staff about Anti-Money Laundering according to Central Bank guidelines. During 2018 the number of Kuwaiti employees reached 127 employee, representing about 72% of the total number of Bank employees.

During the year 2018, IBK sponsored and participated in a number of conferences, seminars and specialized exhibitions in Kuwait and abroad, aiming to raise the professional level of its staff, and markets IBK's financial and banking services. In addition to other marketing and advertising campaigns.

The Bank is committed to its institutional message and social responsibility, regarding the development and support of local industry and the society as a whole. The Bank provide the financial sponsorship through Kuwait Banking Association to participate in the different social and charity events.

The Industrial Bank of Kuwait renewed its sponsorship to "Maker Fair Kuwait" exhibition for the second year, which presented ideas and small innovative projects that would be successful projects and patented in the future. The Bank also continued to support the industrial sector in cooperation with Kuwaiti Industries Union by renewing the annual sponsorship of "Industry is the Knight of the Future", campaign and the "Knights of Industry" program. These will help train a group of promising Kuwaiti youth to have a professional career in the industrial and private sectors, accompanied by a media campaign aimed at increasing people's awareness about the local industry and their products.

The bank also participated in the 5th Kuwait Industries Union's Exhibition "Jusoor" (bridges), which shows the Bank's development role in supporting and financing the industrial sector, in addition to emphasizing the importance of a successful Industrial sector in achieving the future economic security & stability of the State of Kuwait.





Senior Executive Management

Mr. Ali A. Khajah

Chief Executive Officer

Has a Master degree in Economics (1976)
Joined IBK in 1981

Mr .Abdulla I .Al-Hunaidi

**Deputy CEO
Operations & Financial Control**
(till 31/12/2018)

Has a Bachelor degree in
Accounting (1984)
Joined IBK in 1984

Mr .Rasheed A. Al-Sharhan

**Deputy CEO
Projects & Portfolios**
(till 30/9/2018)

Has a Master of Science in
Industrial Management (1977)
Joined IBK in 1978

Mr. Jawad H. Al-Qallaf

**Deputy CEO
Finance & Investment**

Has a Bachelor degree in Accounting (1981)
Joined IBK in 1983



Corporate Governance Report

Corporate Governance

Introduction

The Bank has a Corporate Governance Framework in place to ensure that the Bank is appropriately governed as per best practice. The Board of Directors sets the corporate governance policies and directs the process framework and is responsible for ensuring good corporate governance for the Bank while adhering with the guidelines of the Central Bank of Kuwait in letter and spirit.

Board's certificate on adequacy of Internal Control Systems

The Board is responsible for the establishment and review of the Bank's system of internal control, which is designed to ensure effective and efficient operations; quality of internal and external reporting; internal control; and compliance with laws and regulations. It should be noted, however, that such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of material loss. Management is responsible for establishing and maintaining the system of internal controls.

The effectiveness of the internal control system is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by Internal Audit Department.

Risk Management Department reviews all policies and procedures that underpin the internal control framework. It also reviews risks at the departmental and enterprise level. The Risk Committee reviews all identified risks and their mitigation.

The Audit Committee evaluates reports received from the external auditors, and discusses the issues with them over periodical meetings. The Audit Committee is further responsible for overseeing financial and Internal Control Review (ICR) reports.

The Board has assessed the effectiveness of the internal control system and the Bank's risk and financial reports for the year 2018, and concluded that there are no significant deficiencies, confirming effective operation and design of the Bank's internal control system.

Corporate Governance compliance assessment

The Bank has complied with all applicable requirements as per the corporate governance manual as well as with the Code of Conduct and Ethics, which are accessible through the Bank's website through the following link: www.ibkuwt.com/ibk/web/en/About_IBK/CorpGov.

Bank's Financial Remuneration Policies

Remuneration Policy

The Bank's Remuneration Policy is designed to attract and retain highly qualified, skilled, and knowledgeable professionals and incorporates all the requirements of the CBK as mentioned within its corporate governance instructions. The Policy includes all necessary aspects and components of financial remuneration taking into account reinforcing the Bank's performance objectives and effective risk management.

The Bank's Board, based on the Board Nominations and Remuneration Committee (NRC) recommendations, approves and modifies the Bank's remuneration policy and its design (if any), and reviews the process of its implementation to ensure that it is operating as intended.

Remuneration components:

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the characteristics of the business, the employee's grade in the Bank and the job function as well as market practice concerning the prevailing remunerations level. The employee remuneration consists of fixed remuneration like salary and other benefits, in addition to variable yearly performance based remuneration.

The fixed remuneration is determined on the basis of the role of the individual employee, including job responsibility, job complexity, grade, performance and local market conditions and the applicable laws.

The performance-based incentives (STI for all employees and LTI for senior management) are designed to motivate and reward the employees to achieve the goals and objectives of the Bank as per the strategy and annual plans of the Bank.

Performance based incentives are disbursed as an annual cash bonus for employees. The incentive schemes are linked with a balanced mix of performance indicators at the corporate level and the employee level. The primary goal of the STI is to align the incentive with the Bank's annual performance and individual contributions. The LTI for the senior staff is designed to encourage sustainable and risk adjusted long term performance of the Bank.

The Bank implements a formal performance management process for evaluating and measuring staff performance at all levels. In the beginning of the year, the staff and their performance managers plan and document the annual performance goals (KPIs), required competencies and personal development plans for the staff. At the annual performance appraisal, the performance managers and the reviewers evaluate and document performance against the KPIs / performance objectives. Decisions on adjustment of the employee's fixed salary and on performance based incentives are made on the basis of the annual performance review.

Other benefits like annual leave, medical leave and other leaves, medical insurance, annual tickets, and allowances are provided on the basis of approved policy, and local market practice subject to the applicable laws.



The CEO oversees the implementation of the remuneration system of the employees as per the approved policy, including the design and related procedures. The Board NRC periodically evaluates the sufficiency and effectiveness of the Remuneration Policy to ensure its alignment with the Bank's objectives. The NRC assists the Board to conduct an independent annual review of the Bank's compliance with the Remuneration Policy.

Complying with the Corporate Governance Requirement, the financial remunerations paid to the following groups of employees are disclosed hereunder:

First category: Include CEO, his deputies and /or the other Senior Executives whose appointment is subject to the approval of the regulatory and supervisory authorities.

Second category: Include the Financial and Risk Control Staff.

Third category: Include material risk takers.

Financial remuneration paid for the above categories are:

Category	No. Of Staff	Remuneration Paid (annual)			
		Fixed	Mode of Payment	Variable	Mode of Payment
First Category	4	Salaries: KD 401,250 Tickets: KD 3,344 Insurance benefits: KD 13,919 Yearly bonus: KD 60,188 Social Security: KD 13,943	Cash Cash Cash Cash Deferred Cash	Special bonus: KD 292,403	Cash
Second Category	5	Salaries: KD 192,276 Tickets: KD 5,261 Insurance benefits: KD 10,649 Yearly bonus: KD 28,841 Social Security: KD 3,138	Cash Cash Cash Cash Deferred Cash	Special bonus: KD 54,956	Cash
Third category	7	Salaries: KD 369,571 Tickets: KD 8,500 Insurance benefits: KD 15,169 Yearly bonus: KD 55,436 Social Security: KD 26,400	Cash Cash Cash Cash Deferred Cash	Special bonus: KD 141,764	Cash

The yearly remunerations (including salaries, yearly bonus, tickets, insurance benefits, social security and special bonus) paid for the five senior executives who have received the highest remuneration packages and for the Chief Risk Officer and Chief Internal Auditor (seven persons) amounted to KD 1,153,994.

The financial remuneration package paid to the Board of Directors amounted to KD 242,000.



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The Board of Directors
Industrial Bank of Kuwait K.S.C.
State of Kuwait.

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated March 28, 2018, we have examined the accounting and other records and internal control systems of Industrial Bank of Kuwait K.S.C. ('the Bank') that was in existence during the year ended 31 December 2017.

We covered the following areas of the Bank:

- | | |
|---------------------------------------|------------------------------------|
| 1. Risk Management Department | 2. Information Security Department |
| 3. Direct Investment Department | 4. Compliance Unit |
| 5. Treasury and Securities Department | 6. Research Department |
| 7. Handicraft portfolio Department | 8. Follow Up Department |
| 9. Corporate Finance Department | 10. Projects Department |
| 11. Account Department | 12. Internal Audit Department |
| 13. Agriculture portfolio Department | 14. Agriculture finance Department |
| 15. Financial Control Department | 16. Legal Department |
| 17. Banking Operations Department | 18. Anti-Money Laundering |
| 19. Administration Affairs Department | 20. Disclosure unit |

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated (2/IBS/96/2003) considering the amendments. Further, our examination considering the CBK regulations in the following aspects:

- Aspect IV of the CBK regulations concerning Corporate Governance Rules as Kuwaiti Banks related to Risk management and Internal Controls.
- Instructions issued on 9 Feb 2010 pertaining to maintain the confidentiality information and data of the bank clients.

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AUDIT | TAX | CONSULTING



- Instructions issued on 23 July 2013 pertaining to AML & CFT as well as relevant instructions.
- Bank activities on Securities.

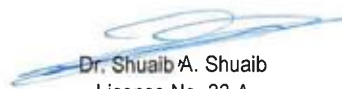
We would like to indicate that your responsibilities as member of the Board of Industrial Bank of Kuwait include the establishment of accounting system and records and adequate Internal Control System for your bank, taking into account that the cost of such system should be commensurate with the benefits expected from their implementation. Nothing that the purpose of this report is to give you reasonable assurance, on the extent to which the adopted procedures and system are adequate to safeguard the bank's assets against the losses which may result from irresponsible acts and uses, as well as confirmations that: the risks are being monitored and accurately evaluated; the operations are processed according to the authorization procedures in place and are properly recorded; the procedures and systems enable you to exercise all types of business with care and caution.

However, it should be taken into account that the deficiency aspects in any of the accounting systems or Internal Control systems, may result in errors which can not be detected or traced, and that it is difficult to evaluate the adequacy of the systems for future period, because the management information and the control procedures may become insufficient due to change in circumstances or as a result of poor adherence to such procedures.

In our opinion, having regard to the nature and volumes of its operations during the year ended 31 December 2017, the accounting and other records and internal control systems, in the areas examined by us, were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK with considering the amendments, further the CBK regulations in the aspects mention above, with the exception of the matters set out in the report appendix. These exceptions do not have a material impact on the fairness of the financial statements.

Furthermore, the Bank has established a process of quarterly follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the control weaknesses and gaps identified during the course of the Internal Controls Review.

State of Kuwait
Aug 26, 2018



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





Risk Management Disclosures 2018

Risk Management Objectives:

The Industrial Bank of Kuwait has clear risk management objectives and a well-established strategy to deliver them through core risk management processes.

At a strategic level, the Bank's risk management objectives are:

- To identify the Bank's material risks.
- To formulate the Bank's risk appetite and ensure that business profile and plans are consistent with it.
- To optimize risk/return decisions by dialogue with business, while establishing a strong and independent review process and structure.
- To adhere to regulatory guidelines relating to risk management.
- To ensure that business growth and strategic plans are properly supported by effective risk assessment.
- To monitor risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions.
- To assist business and support functions improve the control and co-ordination of risk taking across the Bank.
- To promote a culture of risk awareness throughout the organization.

Risk Management Structure:

The responsibility for risk management resides at all levels within the Bank, from the Board and the executive level down through the organization to each business manager and risk specialist documented in detail through policies and procedures and available to all staff through an online shared system. In a three-eye approach, the responsibilities for effective review and challenge reside with managers of departments as the primary risk holders, an independent risk management department and, internal audit. For effective corporate governance, the Chief Risk Officer assists the Board Risk Committee to guide and oversee effective risk management across the Bank. Risk Management also assists the Board of Directors in tasks required by the Board Committees. The Board is responsible for approving risk appetite, which is the level of risk tolerance that the Bank chooses to accept in pursuit of its business objectives. The risk appetite is reviewed annually by the Board Risk Committee so that it is in synchrony with the economic environment and internal strategic objectives.

The Board is also responsible for the internal control and assurance framework. To enhance corporate governance and the management of risk, the following committees have been set up to perform specific roles - the Board Audit Committee, the Board Risk Committee, the Board Nomination and Remuneration Committee and the Board Governance Committee.

Internal Audit is responsible for the independent review of the effectiveness of risk management and the internal control environment in the bank. Its objective is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls, mitigating current and evolving high risks and in so doing enhancing the controls culture within the Bank.

The Board Risk Committee monitors through the risk management department, the Bank's risk profile against the risk appetite documented quantitatively and qualitatively in the risk appetite policy, providing benchmarks for high-level oversight and supervision of the management of risks. The Risk Committee reviews the constituents of the detailed risk appetite statement annually. Where actual performance differs from expectations, the actions being taken by management are reviewed to ensure that the Committee is comfortable with them. The Committee receives regular and comprehensive reports on the Bank's risk profile, an assessment on all risk factors, key issues affecting each business portfolio, risk measurement methodologies and future risk trends. The Board Risk Committee ensures that appropriate policies and procedures exist to manage risks in a professional and proactive manner, reviewing the independence and integrity of the Bank's risk management department and critically assessing business and strategic risks within established risk management policies and procedures.

The Chief Risk Officer reports directly to the Chairman of the Board Risk Committee. The risk management department is responsible for independently assessing and managing credit risks, market risks, liquidity risks, and all types of operational risks. Additionally, the IT risk management function (operating independently of the IT department), reports to the CRO, while the Information Security department reports independently to the CEO. While primary risks are managed by line managers, the risk management department provides a structured and independent assessment of credit, liquidity, market and all types of operational risks by proactively working with line management in identifying, documenting, quantifying, tracking and monitoring Key Risk Indicators and providing solutions whenever KRI's tend to go beyond acceptable levels. It facilitates implementation of risk initiatives and continuously tracks portfolio risks as well as individual credit, investment, new projects and product proposals. It ensures that risks are categorized into groups of low, medium and high risks and that significant risk that are outliers in the boundary provided by the risk appetite policy and those that have potential operational loss impacts, are highlighted, reported and mitigated.



In the collaborative spirit of risk accountability, there are specific committees set up to monitor specific areas of risk. There is an Assets and Liabilities Management Committee (ALCO) that monitors liquidity risks, investment risks and asset projections, in which the CRO participates as an active member. The Credit Committee and Provisions Committees deal with corporate credit and project finance proposals and impairment and provisions issues. Risk management coordinates the Bank's business continuity plans and off-site disaster recovery activities

Stress Testing: A fundamental duty of the risk management department is to ensure that the Bank does not neglect to prepare for the worst event as they plan for growth. Stress testing helps the Bank understand how its portfolios would react if business conditions became significantly more challenging. Risk Management generates specific forward-looking scenarios and analyses how well liquidity and profitability would hold up, whether the levels of capital would be adequate to meet significant shocks and what managers could do ahead of time to mitigate risk. Stress tests capture a wide range of variables that are relevant to the current environment. The Risk Management department co-ordinates the process of stress testing, using bottom-up analysis on expected and unexpected loss. The results of the stress tests are presented to the Executive Committee, the Board Risk Committee, the Board of Directors and to the regulatory authority – The Central Bank of Kuwait for its assessment of the Bank's resilience to stressed credit risk, market risk and economic conditions. The stress scenarios take into account a wide range of factors, including: the Bank's revenue generation potential, loan loss provisions and the probability of default and possible losses given default within its loan book; and possible declines in the market value of investment assets and effects on capital adequacy.

The results of the stress testing also serve as reference points for triggering action on the Bank's capital planning policy and decisions on whether it requires a change of strategy or additional capital. Presently, the Bank is highly capitalized and the capital support risk is low.

The Financial Environment and regulation: During 2018 Kuwait Manufacturing business volumes and margins remained flat and the pressures in the system and the Bank's customers continued, though at lower levels than in the previous years since the downturn and discretionary provisions continued to be taken. The interest rates in Kuwait are gradually rising after a long period of low rates. The crude oil prices appeared to be volatile, hovering between USD60-USD80 per barrel.

A new set of tolerance levels were built into a new upgraded risk appetite statement. Stress tests were periodically conducted internally during the course of the year. External experts

assessed the Bank and its mandate, the risk management department of the bank and the Bank's systems, management, plans and strategies and independently conducted stress tests. The Bank did not fail these independent tests in any of the categories and criteria assessed. Following this work and discussion with the expert group, the Bank was able to confirm that its capital position and resources, after exposure to the stress, were expected to continue to meet the CBK's capital requirements.

Risk Management replicates the CAMEL BCOM methodology that is used by the CBK and provided its risk feedback through the ALCO, The Board Risk Committee and the Board and its results are used by the Board committees including the Nomination and Remunerations Committee.



Risk Rating by External Rating Agencies:

On 8th October, 2018, the international rating agency Fitch reaffirmed the rating of the Industrial Bank of Kuwait as shown below:

Fitch Ratings	
Foreign Currency	
Long Term IDR	A+
Short Term IDR	F1
Viability Rating	+bb
Support Rating	1
Support Rating Floor	A+
Sovereign Risk	
Foreign Currency Long Term IDR	AA
Local Currency Long Term IDR	AA
Outlooks	
Foreign Currency Long Term IDR	Stable
Sovereign Foreign Currency Long Term IDR	Stable
Sovereign Local Currency Long Term IDR	Stable

Fitch comments that IBK's IDRs and Support rating reflect the extremely high probability of support from the government of Kuwait, in case of need. This is based on the government of Kuwait's 49% direct ownership and 12% indirect ownership of IBK, as well as the long-term government funding provided for the bank's development activities. The ratings also take into account the Kuwaiti authorities' long history of strong support for Kuwaiti banks.

The rating agency 'Capital Intelligence' reaffirmed their existing rating of IBK at AA- for 2018 (A+ in 2015) with a 'Stable' outlook. Their summary rating is as follows:



Foreign Currency Long-term	A+
Foreign Currency Short Term	A2
Financial Strength	A
Support	2
Outlook – Foreign Currency	Stable
Outlook – Financial Strength	Stable

Basel III Pillar 3 Consolidated Disclosures:

Overview of Basel III and Pillar 3:

Since December 2005, The Industrial Bank of Kuwait has applied the Basel framework as part of its risk and capital management strategy. The accord is made up of three pillars:

Pillar 1 covers the calculation of risk-weighted assets for credit risk, market risk and operational risk.

Pillar 2 allows firms and supervisors to take a view on whether the firm should hold additional capital to cover the three Pillar 1 risk types, or to cover other risks. A firm's own internal models and assessments support this process which is interactive between the Bank and its regulator, the Central Bank of Kuwait.

Pillar 3 covers external communication of risk and capital information by banks.

The Basel guidelines provides for different approaches to calculating capital requirements.

- The first is the Standardized approach, where risk weights used to assess requirements against credit exposures are consistent across the industry.
- The second approach is the Internal Ratings Based approach (IRB) which relies on the bank's internal models to derive the risk weights.
- The third approach is the advanced approach suitable for very large and complex structures.

As per the guidelines of the Central Bank of Kuwait, the Bank's Pillar I capital adequacy calculations are based on the Standardized approach. For stress testing purposes, however the Bank uses an internal modeling methodology, which is specifically designed for large credit exposures, which constitutes the main business line of the Bank, as under its mandate it cannot have retail or real



estate exposures. Stress tests are simultaneously carried out as per parameters and scenarios provided by the Central Bank of Kuwait. Stress test submissions are made based on both internal and regulatory methodologies.

Stress tests are conducted twice a year, in accordance with the Bank's Basel Pillar 3 Policy and as per the guidelines of the Central Bank of Kuwait. A full report (qualitative and quantitative) is prepared based on December year-end results and a quantitative-only report is prepared based on June mid-year results and projections.

Capital Risk Management:

Capital adequacy is the degree to which capital resources on the Bank's balance sheet are sufficient to cover the businesses' capital requirements now and in the foreseeable future. The Group's permission to operate as a bank is dependent upon the maintenance of adequate capital resources. Capital risk management is the process for reviewing capital requirements to enable the Bank to:

- Meet minimum regulatory requirements in Kuwait where its business is focused and where it is solely located.
- Support its credit rating and maintain cost of funds;
- Support business growth and the ability to withstand and tide over shocks.

The Bank ensures that it is sufficiently capitalized by continually assessing its capital resources and requirements given current financial projections. This takes into account material risks to the projections as well as strategies employed to manage those risks.

The Bank's capital management considers both economic and regulatory capital. Regulatory capital requirements are calculated on the basis of Pillar 1 risks of the Basel framework. Pillar 1 capital covers credit, market and operational risks. The calculation methods and risk weights are specified by Basel III rules. Pillar 2 capital can also be held against the three risk types above, but mainly covers other types of risk. Being an industrial bank with a focused but restricted mandate, a significant weight is given to Concentration Risk. The Bank uses its own internal capital framework and stress testing processes to help determine its capital requirements under stressed scenarios. The Bank ensures that it maintains sufficient buffers above regulatory minima at all times. The adequacy of these buffers is assessed by Risk Management and presented periodically to the Board Audit and Risk Management Committee as part of the Capital Management Policy, the risk governance process, the risk appetite review process and the stress testing process. The Bank's stress testing process forecasts the projected capital requirements and resources in a range of stress scenarios. This enables the Bank to ensure it can meet its minimum regulatory capital requirements in a stressed environment, and to assess that there



is adequate buffer above regulatory capital to meet economic capital needs if trigger points are approached. The stress testing process forms a key component of the internal capital adequacy assessment process (ICAAP).

For Pillar I regulatory capital adequacy calculations, the Bank has adopted the Standardized approach of Basel III, as recommended by the Central Bank of Kuwait in determining the capital required for each component of credit, market and operational risk. As the Bank is a specialized development bank which also offers commercial banking facilities to its customers, it has long term support from the Government of Kuwait. This, together with its significant disclosed reserves, makes its available capital substantially in excess of the minimum requirements of Basel III even after taking into account the additional requirements of ICAAP under the new Pillar II and buffers determining economic capital. With the planned expansion of the asset portfolio as per the Bank's three year strategic plan, the capital adequacy ratio is expected to remain substantially above minimum regulatory requirements and economic capital estimates in the foreseeable future. This strong capitalization provides a cushion against low diversification opportunities due to the government mandate to service and develop the industrial sector in Kuwait. The overall capital adequacy ratio based on Basel III, was 41.37% as on December 31, 2018.

Capital Structure and Adequacy:

In addition to the paid-up capital of KD 20 million and significant disclosed voluntary reserves, the principal corpus of long term funds for the Bank is a renewable long term loan of Kuwaiti Dinars ("KD") 300,000,000 (= USD 990 Million approx..) from the Government of Kuwait first given through an Amiri decree in 1973, from which the Bank's Projects Division provides medium and long term project finance to its industrial borrowers at concessionary pricing. The Government of Kuwait has earlier provided a fund of KD 50 Million and this year with need based additional fund of KD 100 Million. The Bank does not have complex or hybrid capital instruments in its capital structure.

Subsidiaries:

The top corporate entity is The Industrial Bank of Kuwait K.S.C. The Bank has two wholly owned subsidiaries, Kuwait Industrial Projects Company KSCC (KIPCO), a Kuwaiti closed shareholding company ("KIPCO"), and Senaey Enterprises Ltd, a limited liability company incorporated in George Town, Grand Cayman, the British West Indies (together "the Group"). KIPCO is the Group's vehicle for domestic investments and for holding and managing assets taken over by the Bank because of domestic loan defaults; it accounts for some 6% of the total Group assets. Senaey Enterprises is insignificant and not a material element of the Group statement of financial position. Capital adequacy data submitted to the Central Bank of Kuwait includes relevant data from both subsidiaries on a fully consolidated basis.



Capital Structure – 31st December, 2018 (All figures in KD'000)

Tier I Capital	230,522
Permanent Shareholder Equity	20,000
Reserves:	
Legal reserves	36,271
Voluntary reserves	140,560
Fair value reserve	0
Retained Earnings	33,691
Additional Tier I capital	210,522
Tier 2 Capital	6,709
General Provision as allowed	6,709
Total Eligible Capital after deductions	237,231

Capital required for assets weighted by credit risk as at 31/12/2018 (KD 000)

	Asset Categories for Credit Risk (Standard Portfolio)	Net Credit Exposure (after CRM)	Risk Weighted Capital Charge
1	Cash Items	187	---
2	Claims on Sovereigns	160,256	--
3	Claims on International Organizations.	---	---
4	Claims on PSE	---	---
5	Claims on MDB	---	---
6	Claims on Banks	103,002	20,600
7	Claims on Corporates	391,970	391,970
8	Claims on Securitized Assets	---	---
9	Credit Derivative Claims	---	---
10	Regulatory Retail	---	---
11	Past Due Exposures	11,904	9,971
12	Other Exposures	114,162	114,162
	Total Exposure	781,481	536,703
	Less : Excess general provision		(10,685)
	Total Credit Risk Weighted Exposure		526,018
	Minimum Capital Requirement for Credit Risk		68,382

Capital Requirement for Market Risk		
Total Market Risk Weighted Exposure		1,712
Minimum Capital Requirement for Market risk		223
Capital Requirement for Operational Risk		
Total Operational Risk Weighted Exposure		46,320
Minimum Capital Requirement for Operational Risk		6,022
Total Risk Weighted Exposure		574,050
Total Minimum Capital Requirement for credit, market and operational risks		74,627
Eligible Capital		
	Tier 1	230,522
	Tier 2	6,709
Unused but Eligible Capital		162,604
Capital Adequacy Ratio		
Capital Adequacy Ratio per Basel III / CBK		41.33%
Capital Adequacy Ratio based on Tier I Capital only.		40.16%
CET1 Capital Adequacy Ratio		40.16%

Financial Leverage Ratio:

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio is intended to (1) restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes that can damage the broader financial system and the economy; and (2) reinforce the risk-based requirements with a simple, non-risk based “backstop” measure.

The Basel Committee is of the view that a simple leverage ratio framework is critical and complementary to the risk-based capital framework; and a credible leverage ratio is one that ensures broad and adequate capture of both the on- and off-balance sheet sources of banks’ leverage.



The Basel III leverage ratio is defined as the capital measure (the numerator, Tier I capital) divided by the exposure measure (the denominator), with this ratio expressed as a percentage:

Leverage ratio = Capital measure/Exposure measure (%). For Kuwait the minimum regulatory leverage ratio is 3%.

IBK Leverage Ratio December 31, 2018 -Consolidated

	Item	Leverage ratio Framework (KD 000)
	On-balance sheet exposures	
1	On-balance sheet items	699,405
2	(Amounts of assets deducted when calculating the T1 of the capital)	0
3	Total On-balance sheet exposures	699,405
	Derivative Exposures	
4	Gross Exposure(including the amount of additional factor)	607
5	(Adjustments)	-600
6	Total derivative exposures	7
	Securities financing transaction exposures	
7	SFT Assets	0
8	Total securities financing transaction exposures	0
	Off Balance sheet items	
9	Commitments	165,252
10	(Adjustments for conversion to credit equivalent amounts)	(132,202)
11	Total Commitments	33,050
12	Contingencies	93,437
13	(Adjustments for conversion to credit equivalent amounts)	(53,165)
14	Total Contingencies	40,272
15	Total Off Balance sheet items	73,322
	Capital & Total Exposures	
16	Tier 1 Capital	230,522
17	Total Exposures	772,734
	Leverage Ratio	
18	Basel III Leverage Ratio	29.83%



Credit Risk Management:

Credit risk is the risk of suffering financial loss should any of the Bank's customers or market counterparties fail to fulfill their contractual obligations to the Bank. The granting of credit is one of the Bank's major sources of income and, as the most significant risk; the Bank dedicates considerable resources and energy to control it.

The credit risk that the Bank faces arises mainly from project finance and working capital finance. The Bank is also exposed to other credit risks arising from its treasury activities, including debt securities, settlement balances with market counterparties and available for sale assets.

The role of the risk management department is to provide bank-wide direction, independent risk assessment, oversight and challenge of credit risk-taking. The Bank has dedicated departmental credit policies reviewed by a committee for policies and procedures (where the CRO is a member). The Board of Directors approves the credit risk control framework, which provides a structure within which credit risk is managed together with supporting risk management departmental policies. Loans and advances to customers provide the principal source of credit risk to the Group although the Bank can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Bank's risk management policies and procedures are designed to identify and analyze risk, to set appropriate risk appetite, limits and controls, and to monitor the risks, delinquency, adequacy of follow up and rating assessments. The risk management department independently reviews and rates all individual credit proposals generated by the two credit granting departments, relating to project finance and commercial, working capital and trade finance. It also quantifies reviews and monitors the quality and movement of the overall credit portfolio of the Bank.

One area of particular review is concentration risk. A concentration of credit risk exists when a number of customers belong to the same group, or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other business conditions. As a result, the Bank constantly reviews its concentration in a number of areas including, for example, geography, maturity, industrial sector and group control. Diversification is achieved through setting maximum exposure guidelines to individual counterparties not exceeding 15% of capital. However, given the specific mandate to operate within the industrial sectors, concentration risk is on the higher side.

The Bank has in place a system for internal credit risk rating of all exposures on a scale of 1 to 10. Risk Management recommends credit ratings for new clients and periodically reviews all existing borrower ratings in the Bank using well defined internal rating parameters. Risk Management tracks the weighted average rating of the credit portfolio and each risk category within the portfolio.



In order to mitigate credit risk, exposures are usually secured by acceptable collateral. The existing portfolio of loans and advances reflects the Bank's emphasis on lending inside Kuwait and in particular to industrial units in Kuwait - a country whose dynamics the Bank comprehends well and where the Bank has a better understanding of the inherent risks. The Bank has credit concentration to the industrial sector due to the terms of its constitution. The Bank manages the risk by avoiding concentration by obligor, by a particular industry and, in the case of cross border exposures, by geographical area.

Special attention is paid to overdue accounts by committees especially set up for this purpose. Follow up measures are discussed and remedial action taken. If required, appropriate provisioning levels are determined.

At both the departmental level as well as the overall bank level, disciplined credit processes are in place. The processes are intended to ensure that risks are accurately assessed, properly approved and continuously monitored. The primary tool for managing credit risk is a set of credit policies and procedures that are periodically reviewed and updated. A stringent approval framework exists in the Bank which mandates a rigorous and thorough evaluation of the creditworthiness of every obligor. All credit and investment proposals and their extensions and renewals of existing credits are assessed by Risk Management.

Credit limits are established for all customers after careful assessment of the relevant credit application. As per procedure, the approval of the Board of Directors is necessary for credit limits above a certain level. Management's appetite is conveyed by limits for country, industry, borrower and product. Excesses above approved limits require approval by appropriate credit authorities in the Bank.

Concentrations by size, industry, business and industry sectors are monitored and limited. Central Bank of Kuwait defines concentration as 15 percent of a bank's total eligible capital base as defined under Basel III/CBK; all concentrations in the portfolio by industry are monitored closely for adverse financial or economic conditions.

Risk Management tracks delinquencies at the company and portfolio level and is in constant dialogue with the Business departments so that action on irregularities can be taken in time and slippage down the past-due time buckets are controlled as far as possible.

Information related to credit exposures:

Past Due / Impaired Assets and Provisioning:

IBK follows the Central Bank of Kuwait definitions of irregular assets and guidelines for impairment provision. Classification of credit exposures and computation of provisions are as below:



A. Credit Facilities to Customers (Resident & Non-Resident):

1. Exposure is classified as Irregular if:

- the debit balance in the current account has been constantly showing an excess of over 10% of the approved Overdraft limit;
- the current account is in debit, without an approved Overdraft limit;
- credit facilities have expired, outstanding's have not been settled and the Bank has decided not to renew the facilities on credit grounds;
- loan installments are defaulted;
- interest is in arrears.

2. Irregular exposures are classified as below:

- Sub-Standard: Where any of the irregularities as above has been existing for a period exceeding 90 days but less than 180 days, or if, in the Bank's judgment, there is noticeable deterioration in the customer's financial condition.
- Doubtful Debts: Where any of the irregularities as above has been existing for a period exceeding 180 days but less than 365 days, or if, in the Bank's judgment, there is noticeable deterioration in the customer's financial condition.
- Bad Debts: Where any of the irregularities as above has existed for a period exceeding 365 days, or if, in the Bank's judgment, there is noticeable deterioration in the customer's financial condition.

3. Provision requirements:

Specific provisions are made as below:

- Sub-Standard exposures : 20%
- Doubtful Debts : 50%
- Bad Debts : 100%

1% General Provisions are made on all exposures not subject to a specific provision after deducting certain allowed collaterals as per the guidelines of The Central Bank of Kuwait. The Bank is presently working towards implementation of IFRS 9 early provisioning approach.

This section discusses the part of the credit portfolio where customers have been delinquent in their repayments.



Disclosure on Past Due Loans - Ageing Criteria as on 31.12.2018

Past Due Category	Outstanding amount (KD 000)	% of Total Past Dues
0<30 days	1,422	28.78%
31<60 days	0	0%
61<90 days	456	9.23%
91<180 days	2,594	52.50%
181<364 days	469	9.49%
Above 1 year	0.00	0%
Total ==>	4,941	100.00%

The ratio of Non-Performing Loans (NPL) to credit exposure stood at 2.31% as on 31.12.2018.

B. Sovereign Exposures:

The Bank has a minimal sovereign exposures and the capital charge for that exposure is computed based on the guidelines issued by CBK from time to time.

C. Information on Credit Exposures as on 31.12.2018 (All figures in KD'000)

Asset Category	Funded Credit Risk Exposure	Non - Funded Risk Exposure	Total Credit Risk Exposure
1 Cash Items	187	0	187
2 Claims on Sovereigns	160256	0	160256
3 Claims on International organizations			
4 Claims on PSEs			
5 Claims on MDBs			
6 Claims on Banks	102996	6	103002
7 Claims on Corporates	335503	61687	397190
8 Claims on Securitized Assets			
9 Credit Derivative claims			
10 Regulatory Retail			
11 Past Due Exposures	11367	537	11904
12 Other Assets	102526	11636	114162
Total Credit Risk Exposure	712835	73866	786701

Geographical Distribution of Exposures as on: 31st December, 2018 (All figures in KD '000')

	Total Loans and Advances				Loans & Advances- Industrial Loan-I				Loans & Advances- Commercial Facilities			
	December, 2018		December, 2017		December, 2018		December, 2017		December, 2018		December, 2017	
Kuwait	443,707	99.29%	455,861	99.48%	177,698	100%	188,393	99.01%	265,313	98.82%	267,468	99.81%
Others	3,170	0.71%	2,392	0.52%	0	0%	1,881	0.09%	3,170	1.18%	511	0.19%
Grand Total	442,877	100%	458,253	100.00%	177,698	100%	190,274	100.00%	268,483	100%	267,979	100.00%

Residual Maturity of the Loans and Advances Portfolio as on 31st December, 2018 (All figures in KD'000)

	Loans & Advances at Commercial rate		Industrial Loan at encouraged rates		Total Portfolio	
	December, 2018	December, 2017	December, 2018	December, 2017	December, 2018	December, 2017
Up to 1 Month	22,743	21,350	18,316	13,165	41,059	34,515
1 to 3 Month	59,281	44,994	1,511	6,001	60,791	50,995
3 to 12 Month	69,181	76,509	20,973	28,623	90,154	105,132
Over 1 Year	30,308	116,195	155,949	154,940	186,257	271,135
Total	181,513	259,048	196,749	202,729	378,261	461,777

Loans and Advances Portfolio by Sector as on 31st December, 2018 (Outstanding Balances in KD'000)

	2018		2017	
	Outstanding Balance ('000)	As a % of Total Exposure	Outstanding Balance ('000)	As a % of Total Exposure
Chemicals	19,449	4.39%	36,489	8.10%
Food & Beverages	36,290	8.94%	36,290	7.97%
Metal Products & Engineering	158,607	35.80%	102,221	22.71%
Construction & Building Material	79,759	18.00%	77,153	17.14%
Furniture	5,034	1.14%	4,298	0.96%
Textile	489	0.11%	319	0.08%
Paper & Printing	11,697	2.64%	12,989	2.88%
Government	0	0.00%	0	0.00%
Oil and Gas	124,599	28.13%	130,936	29.07%
Agriculture and Fishing	1,566	0.35%	1,055	0.23%
Others (Non-Financial)	0	0.00%	48,921	10.86%
T.Non-Financial Sectors	440,797	99.50%	450,301	100.00%
Financial Sectors	2,216	0.50%	0	0.00%
Total Sectors	439,706	100.00%	439,012	100.00%



Impaired Loans – Geographical Distribution as on 31st December, 2018 (All figures in KD '000)

	Outstanding loans		Provision provided for impaired loans	
	2018	2017	2018	2017
Kuwait	8086.15	1777.98	36	1160.64
Other GCC countries	0	0.00	0	0
Grand total	8086.15	1777.98	36	1160.64
Impaired loans as a percentage of outstanding loans portfolio	2.31%	0.15%		
Coverage percentage			0.45%	65.28%

Credit risk mitigation

Netting: In cases where the Bank's claims against customers are not settled, the Bank exercises set-off rights and pursues its claim on a net basis. During the course of any legal action, the Bank preserves its claim at the original net level, disregarding any partial payment(s) in order to avoid inadvertently triggering any legal issues that could otherwise arise.

Collateral Valuation and Management: In cases where collateral is to be taken, the Bank accepts standard collateral types such as cash, chattel mortgage over movable assets, mortgage over fixed assets, personal / corporate/ bank guarantees etc. In the case of mortgages, the Bank insists on being named the loss-payee in the related insurance policy. Where guarantees are taken, the Bank satisfies itself of the creditworthiness of the guarantor by obtaining full financial information about the guarantor, on the rationale that the Bank views the guarantor as though he were himself the primary obligor who would himself have to be eligible for the size of the commitment. In respect of bank guarantees, a formal guarantor line for the bank concerned is a pre-requisite.

Given its status as a specialized industrial finance institution, the Bank has sufficient skills and means in-house to evaluate projects, factories and other types of fixed assets under mortgage to the Bank.

Credit Risk Concentration: The Bank's charter limits its customer-base to manufacturing industries specifically to entities holding industrial license. Accordingly, there is a credit concentration in the industrial sector. Within that class, the Bank's portfolio is composed of customers spanning a wide variety of activity. Additionally, the Bank participates in syndicated loans to non-resident banks. The Bank's customer-base is not subject to any significant degree of cyclicity.



Credit Exposure after Credit Risk Mitigation (CRM) and credit conversion factor:

(31.12.2018 All figures in KD 000)

Asset Categories	Credit Exposure before CRM	Credit Exposure after CRM	Credit Risk Weighted Assets
Cash Items	187	187	0
Claims on Sovereigns	160256	160256	0
Claims on International organizations	0	0	0
Claims on PSEs	0	0	0
Claims on MDBs	0	0	0
Claims on Banks	103002	103002	20600
Claims on Corporates	398004	391970	391970
Claims on Securitized Assets	0	0	0
Credit Derivative claims	0	0	0
Regulatory Retail	0	0	0
Past Due Exposures	11904	11904	9971
Other Assets	114162	114162	114162
Total Credit Risk Exposure	787515	781481	536703

IFRS9 - EXPECTED CREDIT LOSSES - STAGEWISE - AS ON 31.12.2018

Stages	Exposure at Default (EAD) (KD 000)	Expected Credit Loss (ECL) (in KD 000)
Stage - 1	553,195	3,164
Stage - 2	32,377	1,763
Stage - 3	16119	2,627
TOTAL	601691	7,553

Market Risk Management:

Market Risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. This risk is inherent in the financial instruments associated with our operations and/or activities including loans granted at commercial rates, deposits, securities and trading account assets, and derivatives. The majority of market risk exposure resides in the Bank's treasury and investment departments and market risk through the local equity holdings of the Bank's subsidiary KIPCO which are passive AFS holdings. IBK Risk Management's market risk objectives are to:



- Understand and control market risk by robust measurement and the setting of limits and monitoring of the same.
- Ensuring accuracy in the deal/settlement process
- Facilitate business growth within a controlled and transparent risk management framework.
- Measure and report non-traded market risk.

Market risk for the Bank is relatively limited as, except for managing an FX book for its own account and its local industrial customers, and in rare cases using derivatives for hedging purposes, the Bank does not expose itself significantly to market risks. Appropriate limits have been established and treasury and investment activities are constantly monitored.

The focus at IBK is on industrial lending and on corporate banking. The Bank has a long term investment in its wholly owned subsidiary (KIPCO) which invests in the local market and has a non-traded Kuwaiti equity portfolio. There is also an international component in the Bank's equity book which is invested in start-up ventures through reputed international managers. These investments are of long term nature and are exposed to the downside risk of direct equity investments. These investments are diversified and individual investments are capped within limits. The Bank is not actively involved in equity or bond trading, trading in derivative products, options, commodities or most of the other market risk generating activities that commercial/investment banks usually engage in.

Market risk is monitored taking into consideration market analysis, market liquidity, business strategy and dealer experience. The Bank has limits on investment size, country, and counterparty exposure as well as on open positions by dealers and for the Bank as a whole. These limits help to reduce the absolute amounts of market risk. In addition, the Bank has established stop-loss limits for certain activities involving market risk.

Market risk for trading portfolio and foreign exchange exposures: The Bank currently does not have a proprietary trading portfolio of any significance in foreign exchange or money market instruments. It does not have derivative trading exposures or exposures in commodities. However, all forward foreign exchange swap positions, used for hedging Bank's position have been considered as part of derivative exposures.

Market Risk

Industrial Bank of Kuwait - All figures in KD 000 Disclosure on Market Risk - Capital Requirements as on 31.12.2018		
Type of Risk	Risk Weighted Exposure	Minimum Regulatory Capital Requirement
Interest Rate Risk	0	0
Equity Position Risk	0	0
Foreign Exchange Risk	1,712	137
Note: The figures are matched with Capital Adequacy computations. The Bank does not have any exposures in the trading book		

Equity position in the banking book:

Given the specialized nature of the Bank and under its constitution, the Bank invests in equity of companies both for strategic and relationship reasons as well as to generate capital gains. The Direct Investments and Promotions department manages the equities portfolio which has local and international dimensions. It makes investments in new ventures and funds with the objective of making capital gains in the international private equity markets. The equities portfolio for investments within Kuwait is managed by “Kuwait Industrial Projects Company KSCC”(KIPCO), a wholly owned subsidiary of the Industrial Bank of Kuwait, whose financial statements are consolidated with those of the Bank.

Strategic investments are those that fit in with the Bank’s objectives of long term industrial development and expected to benefit the Bank in terms of reach and network presence. Strategic investments in equities may be made to ensure growth and development of existing companies, investment in new ventures as well as to exercise control over companies which have turned severely delinquent and are underperforming and thus have to be taken over. Equity investments may be made by KIPCO as pre-IPO placements or may be made directly through the stock exchange for listed companies. Since these are long term investments, this is a passive investment portfolio with valuations subject to the movements of the market. Following world and regional trends, the Kuwait Stock Exchange index continues to witness high volatility.

Impaired investments form a small component of the equities portfolio. This is retained to exercise remedial control over companies which have turned severely delinquent, are underperforming and thus have to be taken over. These are under management of KIPCO and relate to domestic exposures only.

Differentiation is made between the component of the portfolio which has been made with the objective of making capital gains and those that have been made for strategic reasons mentioned above. It is recognized that equity investments carry considerable downside risk as well as expectation of high returns. Risk Management rates all investments made by the Direct Investments and Promotions department using a rating methodology for private equity developed internally by the risk management department.

Interest Rate Risk Management:

The overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net Interest Income. Interest rate risk is measured as the potential volatility in Net Interest Income caused by changes in market interest rates. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its earnings caused by re-pricing mismatches between rate sensitive assets, liabilities and off balance sheet positions.

The Bank has received a 20 year loan from the Government of Kuwait (initiated in 1973 and rolled over) which is partly priced at the fixed rate of 1/2 % per annum to the extent of the total industrial loans and commitments made by the Bank. In 2007, this was extended by another KD



100 million by the Government. This low-cost source is a very important component of the Bank's total cost base. The Bank engages in subsidized fixed rate lending to the industrial sector. To that extent, fixed cost sources and applications of funds are outside the framework of interest rate risk calculations.

Substantially all remaining KD loans are floating and priced at the Central Bank discount rate plus margin and are re-priced when the Central Bank changes the discount rate.

Around 90% of the Bank's assets are denominated in Kuwaiti Dinars. Among other currencies, the US Dollar is significant. As to all other currencies, the exposure, though not significant, is nonetheless generally matched in each of the maturity buckets.

From time to time, stress tests are conducted to gauge the impact on income under stress conditions e.g. sensitivity to a 1% reduction in the discount rate of the Central Bank.

Counterparty Credit Risk

Since the Bank may deal with other banks and financial institutions in foreign exchange forward contracts / swaps used for hedging bank's exposure, the Bank computes the capital charge for the notional exposure and the mark to market positions of those derivatives, using the Current Exposure Method (CEM) guidelines issued by CBK in this regard. The total capital charge for such exposures is Nil.

Industrial Bank of Kuwait Disclosure on Counterparty Credit Risk as on 31st December, 2018	
Description	Total Weighted Value (KD 000)
Notional Exposure of Foreign Exchange Forward Contracts	607
Positive MTM	0
As on 31st December 2018, the Bank does not have outstanding Foreign Exchange Forward Contracts	

Interest rate risk in the banking book

Interest rate risk in the banking book arises from the mismatches between assets and liabilities, in the various maturity buckets. These are however kept within prescribed limits set for each maturity bucket. There is a downside risk in providing hedging as the Kuwaiti Dinar market lacks depth, with limited number of players in the interbank Kuwaiti Dinar market. Interbank activity is sporadic beyond short maturities. Central Bank of Kuwait intervention bonds, direct one month intervention and treasury bonds are the only available instruments for deploying excess liquidity. As a result, CBK interventions can have a major impact on KIBOR rates. The lack of interest rate hedging instruments in the KD market is a concern. However, the Bank's overall exposure to interest rate risk is mitigated by the following factors: (i) active and effective management of the Treasury investments portfolio; (ii) commercial loans are priced on floating rate basis; and (iii) project loans are funded by the Government loan and are thus market-independent.



Interest Rate Sensitivity – 31st December, 2018 (Currency: KD)

	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	190,879.10	166,685.03	38,579.07
Interest Bearing Liabilities	44,792.59	0	247,233.47
GAP	146,086.52	166,685.03	208,654.41-
Cumulative GAP	146,086.52	312,771.55	104,117.14
Sensitivity to 1% interest rate change in the next 1 year			1041.17

Interest Rate Sensitivity – 31st December, 2018 (Foreign Currency: USD)

	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	9,896.87	0.00	0.00
Interest Bearing Liabilities	34,490.07	15599.565	0.00
GAP	-24,593.21	-15,599.57	0.00
Cumulative GAP	-24,593.21	-40,192.77	-40,192.77
Sensitivity to 1% interest rate change (in KD terms, after conversion)			-401.93
Overall Interest Rate Sensitivity (Combine Position) for 1% Interest Rate Change			639.24

Liquidity Risk Management:

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for client lending, trading activities, investments and deposits. In extreme circumstances lack of liquidity could result in reductions in balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that it will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events.

Liquidity risks are managed by monitoring asset liability maturity mismatch gaps and target liquidity ratios. The Bank's liquidity, both in local and foreign currency remained comfortable in 2018. The Bank continued to build relationships with Kuwaiti institutions who are in a position to lend in foreign currency. Thus a diversified fund sourcing base is available. These risks are monitored by Risk Management and collectively assessed through the Assets and Liabilities Management Committee (ALCO). The Bank adheres to the guidelines of the Central Bank of Kuwait with regard to liquidity management.

Accounting policies: Financial assets which are intended to be held for an indefinite period of time and which are not classified as at fair value through statement of income, loans and receivables and Held to Maturity assets are classified as Available for Sale investments. Such investments are reported at fair value, determined on a quarterly basis and marked to market where market valuations are available. Unlisted equity participations or private investments in Funds whose fair value cannot be reliably determined are carried at cost less impairment. Other Available-for-Sale investments are initially recognized at cost and subsequently re-measured at fair value with unrealized gains or losses recognized directly in Other Comprehensive Income. The fair value investments listed on the stock exchange are based on their quoted market price (bid price) at the balance sheet date without any deduction for transaction cost. All classifications of investments are based on International Financial Reporting Standards.



Disclosure on Liquidity Coverage Ratio (LCR):

Based on the CBK guidelines on Liquidity Coverage Ratio, the LCR disclosure for the period ended 31.12.2018 is as under:

(KD 000)

Group	Group	Description	Values	Values After Flow Rates
HIGH QUALITY LIQUID ASSETS	1	TOTAL HIGH QUALITY LIQUID ASSETS (BEFORE REVISIONS)		155,998
CASH OUTFLOWS	2	RETAIL DEPOSITS AND SMES:	27,293	4,647
	3	STABLE DEPOSITS		0
	4	LESS STABLE DEPOSITS	19,850	3,454
	5	OTHER UNSECURED DEPOSITS AND FUNDS FROM WHOLESALE FUNDING EXCLUDING DEPOSITS OF SMES CUSTOMERS:	51,579	35,374
	6	OPERATIONAL DEPOSITS		0
	7	NON-OPERATIONAL (OTHER UNSECURED FUNDING)	51,579	35,374
	8	SECURED FUNDING		0
	9	OTHER CASH OUTFLOWS, INCLUDING:	159,112	31,031
	10	FROM DERIVATIVES		0
	11	FROM ASSET-BACKED SECURITIES AND COMMERCIAL PAPERS (ASSUMING NON-FEASIBILITY OF RE-FINANCING)	0	0
	12	COMMITTED CREDIT AND LIQUIDITY DRAWBACKS	159,112	31,031
	13	OTHER PROSPECTIVE FUTURE FUNDING OBLIGATIONS	95,804	4,738
	14	OTHER CASH CONTRACTUAL OUTFLOWS	92	92
	15	TOTAL CASH OUTFLOWS		75,881
CASH INFLOWS	16	SECURED LENDING TRANSACTIONS		0
	17	CASH INFLOWS FROM PERFORMING LOANS	265,704	132,852
	18	OTHER CASH INFLOWS	2,020	2,020
	19	TOTAL CASH INFLOW	267,724	134,872
LIQUIDITY COVERAGE RATIO	20	TOTAL HIGH QUALITY LIQUID ASSETS (AFTER REVISIONS)		155,998
	21	NET CASH OUTFLOWS		18,970
	22	LIQUIDITY COVERAGE RATIO		821.29 %

Disclosure on Net Stable Funding Ratio (NSFR):

Based on the guidelines received from Central Bank of Kuwait, on Net Stable Funding Ratio, the disclosure details are as under:



Table 4: NSFR Common Disclosure Template for the period ending on: 31.12.2018 (All values in KD 000)

Sr	Item	Unweighted Values (before applying relevant factors)				
		No specified maturity	Less than 6 Months	More than 6 months & less than 1 year	Over 1 Year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	* Regulatory Capital	237,956.00				237,956.00
3	* Other Capital Instruments	-				
4	Retail Depsoits and Deposits from small business customers :					
5	* Stable Deposits	-				
6	* Less Stable Deposits	9,256.90	1,202.21			1,086.49
7	Wholesale funding:					
8	* Operational Deposits	-	-			
9	* Other wholesale funding	13,129.07	73,086.11		345,929.92	370,383.29
10	Other Liabilities:					
11	* NSFR Derivative Liabilities	-	-	-	-	-
12	* All other liabilities not included in the above categories	62,323.40	22,955.53	-	-	-
13	Total ASF	322,665.37	97,243.85	-	345,929.92	609,425.79
Required Stable Funding (RSF):						
14	Total NSFR high - quality liquid assets (HQLA)	159,638.58	-	-	-	7,911.35
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing Loans & Securities:					
17	* Performing Loans to financial institutions secured by Level 1 HQLA	7,125.95	60,033.00	-	-	6,003.00
18	* Performing loans to financial institutions secured by non - Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
19	* Performing loans to non - financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs,of which:	-	119,321.51	45,469.67	181,449.37	263,844.95
20	** With a risk weight of less than or equal to 35% as per Capital Adequacy Ratio - Basel 3 Guidelines	-	-	-	-	-
21	* Performing residential mortgages, of which:	-	-	-	-	-
22	** With a risk weight of less than or equal to 35% under CBK Capital Adequacy Ratio - Basel III Guidelines	-	-	-	-	-
23	* Securities that are not in default and do not quality as HQLA, including exchange - traded equities	-	-	-	-	-
24	Other Assets:	-	-	-	-	-
25	* Physical traded commodities, including gold	-	-	-	-	-
26	* Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
27	* NSFR derivative assets	-	-	-	-	-
28	* NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
29	* All other assets not included in the above categories	-	13,190.10	3,332.96	118,517.52	125,214.41
30	Off - Balance Sheet Items	-	93,361.54	-	-	4,668.08
31	Total RSF	166,764.53	285,906.14	48,802.62	299,966.88	407,641.79
32	NSFR (%)					149.50%



Operational Risk Management:

Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and systems. Operational risks are inherent in the Bank's operations. Major sources of operational risk include: operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts. The Bank is committed to the identification, measurement and management of operational risks. Such risks are managed through bank-wide or line of business specific policies and procedures, controls, and monitoring tools. A critical element is the identification of business specific Key Risk Indicators (KRIs) and their monitoring across business lines. In particular, Risk Management has worked closely with business units and implemented improved management approaches for operational risk, including self-assessment formats and surveys, to focus on critical risk areas, to strengthen control, and minimize operating losses.

The Bank's operational risk management framework aims to:

- Understand and report the operational risks being taken by the Bank.
- Capture and report KRIs and operational errors made.
- Understand and minimize the frequency and impact, on a cost benefit basis, of Operational risk events.
- Manage residual exposures using insurance.

An operational risk self-assessment process is in place with focus on Key Risk Indicators that are specific to the operational area. Risk Management and Internal Audit departments play a vital role in reviewing and maintaining the integrity of the control environment. Additionally, the Bank has covered certain specific areas of operational risk that cannot be controlled internally, through insurance policies.

Information Technology Risk Management

Procedures are in place to safeguard the confidentiality and integrity of stored data and information. These include:

- The installation of firewall systems to protect the network from external interference
- Access controls over application systems
- Compliance with the principle of dual control in operating procedures
- Various monitoring and internal control processes.
- Online data replication process on independent servers.
- Onsite contingency planning.
- Offsite business continuity and disaster recovery programs.

The Information Security department reports directly to the CEO of the Bank and independently monitors the security environment and security incidents and violations.

The Bank is in the process of substantially upgrading the IT infrastructure including transactional, data warehousing and risk management solutions in order to form the base for future growth opportunities.

Capital allocation for Operational Risk:

For the purpose of capital adequacy under Basel III, the Bank presently follows the Standardized Approach of measurement for calculating its operational risk capital charge based on three years' gross income. This is calculated as per the CBK guidelines. The Bank maintains a database of its operational losses. The total amount of capital charge for operational risk for FY2018 is: KD 6.017 Millions.

Industrial Bank of Kuwait Disclosure on Operational Risk (Using Standardized Approach) as on 31st December, 2018	
Description	Value(KD 000)
Total Operational Risk Weighted Assets	46,321
Total Capital Charge	6,022
Methodology: Based on the average of last 3 years gross income, the approach as suggested by Central Bank of Kuwait / Basel - III	

Anti-Money Laundering Policies:

The Bank is subject to the rules and regulations of its regulator, the CBK, in the conduct of banking business. The Bank is bound by CBK Instruction No. (2/RB/92/2002) and Law No. 35 of 2002 and subsequent amendments which have been designed to combat money laundering.

The Bank has internal written policies and procedures authorized by its Board of Directors, designed to prevent, detect and combat money laundering. Its anti-money laundering systems include processes, policies, personnel and training, documentation, reporting, and control systems. In 2013, based on new guidelines of the Central Bank of Kuwait the AML policy and procedure was updated to cover the latest developments.

The Bank is required to obtain from its customers, copies of the licence and registration at the time of opening customer accounts. The Bank follows Know Your Customer ("KYC") processes, and the identity of the Bank's customers is established ab initio through official documents as above. Customer records are preserved for a period of 5 years after the termination of the banking relationship. Suspicious transactions are tracked. Staff training and awareness programs are conducted from time to time. The Bank has implemented a state of the art automated anti-money laundering system to track and analyse suspicious transactions. The Bank has initiated the process of becoming FATCA compliant.



New guidelines of the Central Bank of Kuwait require all customers of the Bank to be rated for money laundering and terrorist financing risks. An internal methodology for AML risk assessment for companies and businesses has been developed by risk management and has been incorporated in Board approved policies of AML-TF.

Information related to the Bank's remuneration policy:

Overview of the key features and objectives of the remuneration policy:

The Bank's Remuneration Policy is designed to attract and retain highly qualified, skilled, and knowledgeable professionals and incorporates all the requirements of the CBK as mentioned within its corporate governance instructions. The Policy includes all necessary aspects and components of financial remuneration taking into account reinforcing the Bank's performance objectives and effective risk management. The Bank's Remuneration Policy incorporates all the requirements of the CBK as mentioned within its corporate governance instructions,

The Bank's Board, based on the Board Nominations and Remuneration Committee (NRC) recommendations, approves and modifies the Bank's remuneration policy and its design, and reviews the process of its implementation to ensure that it is operating as intended.

Remuneration components: The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the characteristics of the business unit, the employee's grade in the Bank and the job function as well as market practice concerning the prevailing remunerations level. The employee remuneration components are:

1. Fixed remuneration,
2. Performance based Annual Incentives for all staff (STI),
3. Risk and Return Based Long Term Incentives for Senior Staff (LTI),
4. Other benefits, and
5. End of service payments.

The fixed remuneration is determined on the basis of the role of the individual employee, including job responsibility, job complexity, grade, performance and local market conditions and the applicable laws.

The performance-based incentives (STI and LTI) are designed to motivate and reward the employees to achieve the goals and objectives of the Bank as per the strategy and annual plans of the Bank. Performance based incentives are disbursed as an annual cash bonus for all staff (STI) and deferred cash bonus for the senior staff (LTI). The incentive schemes are linked with a balanced mix of performance indicators at the corporate level, department / unit level and the employee level. The primary goal of the STI is to align the incentive with the Bank's annual performance and individual contributions. The LTI for the senior staff is designed to encourage sustainable and risk adjusted long term performance of the Bank. The LTI scheme is applicable from 2015 onwards.

The Bank has introduced a formal performance management process for evaluating and measuring staff performance at all levels. In the beginning of the year, the staff and their performance managers plan and document the annual performance goals (KPIs), required competencies and personal development plans for the staff. At the annual performance appraisal interview, the performance managers and the reviewers evaluate and document performance against the documented goals. Decisions on adjustment of the employee's fixed salary and on performance based incentives are made on the basis of the annual performance review.

Other benefits like annual leave, medical leave and other leaves, medical insurance, annual tickets, and allowances are provided on the basis of individual employment contracts, local market practice subject to the applicable laws. End of service payments are payable in accordance with the employment contract subject to the applicable laws.

The CEO oversees the implementation of the remuneration system of the employees as per the approved policy, including the design and related procedures. The Board NRC periodically evaluates the sufficiency and effectiveness of the Remuneration Policy to ensure its alignment with the Bank's objectives. The NRC assists the Board to conduct an independent annual review of the Bank's compliance with the Remuneration Policy.

Nomination and Remuneration Committee (NRC): The role of the Nomination and Remuneration Committee is to assist the Board of Directors in fulfilling its oversight on the identification of persons eligible for membership of the Board of Directors; the Committee will submit its recommendations to the Board regarding candidates to the different committees. The committee is also responsible for the draft, review and update of the Remuneration policy, and assist the board in evaluating the effectiveness and fairness of the policy, and to ensure that the policy is appropriate with the strategic objectives of the Bank. The NRC conducts regular revision of Remuneration Policy and makes recommendations on any updates to the Board. It carries out regular evaluation of the sufficiency and effectiveness of Remuneration Policy to ensure alignment with Bank's objectives. It makes recommendations to the Board regarding the level and components of the remuneration of the CEO and his direct reports as well as the Bank's executive staff. It works closely with the Bank's Risk Committee and the CRO in order to evaluate the incentives proposed by the remuneration system.

The Bank consulted Ernest & Young during 2014 for structuring an incentive policy. The Bank follows a Board approved Remuneration Committee Charter and Procedures, which was approved in 2014. Since FY2015, the Bank has been implementing revised performance management system for all employees.

Risk Assessment: The main business of the Bank is in the nature of a combination of development and commercial banking supplemented by an investments portfolio. It also manages two government funded portfolios related to small scale industry and handicrafts and agricultural financing. It is risk management department's assessment that the remuneration policy of the bank evenly weights the long and the medium term results and this is well documented and



recorded in the new performance appraisal system (PMS) through a SMART process (Specific, Measurable, Achievable, Relevant and Time based) through detailed and quantified KPIs (Key performance indicators), continuous performance monitoring and coaching, periodic reviews and final performance based on financial results as well as defined qualitative objectives. Senior management is judged by the Remuneration Committee on a distribution and combination of return on investment, defined risk measures including CAMEL-BCOM components, and business elements. The Bank took measures to ensure that no material risk taker or the senior management approached areas for short term gains such as financial market trading or areas subject to high risk and potential reward or indulged in excessive risk taking. All proposals of the Bank and the overall portfolio of the Bank was assessed independently by risk management and reported to the Board Risk Committee.

The performance review and the remuneration for control departments such as Internal Audit and Risk Management is determined by the Board Audit Committee and the Board Risk Committee respectively. The performance criteria for the control departments are recorded through specific Key Performance Indicators or KPIs relevant for these departments and none of the KPIs are based on a business target such as revenue, profits or related targets. As per corporate governance principles, the control departments do not report to the CEO and the executive arm of the Bank but directly to the Board and the remuneration is determined accordingly.

With respect to the determination of relationship between performance and levels of remuneration, the Bank has established adequate links and weights for individual performance, business unit performance and corporate performance according to the different levels of bank staff with assistance of the external consultants. Corporate performance in turn, takes measures relating to ROE, assets portfolio and defined risk measures.

Variable remuneration for senior staff has short term and long term components. The long term component is vested after 3 years from the date of granting. The vesting amount may increase or decrease according to the 3 year average performance in terms of EPS and risk measures. The Bank has only cash based variable remuneration and does not provide stock options or shares. Corporate performance targets have a ROE weight of 40%, asset portfolio performance of 30% and risk rating measure of 30%, as designed by E & Y consultants. All staff of the Bank is eligible for performance based variable incentives. Only senior management and staff, who are 20 in number, are eligible for long term variable incentives. There were no sign-on awards provided to any staff.

Senior Management is defined as the CEO and his executive team of three DCEOs. Reporting to the CEO, is the DCEO – Finance and Operations, the DCEO – Projects and Portfolios and DCEO – Finance and Investments. Material risk takers include the heads of revenue generating business departments which are Project Finance and Follow Up, Corporate Finance, Direct Investments, Treasury, Small Enterprise Finance and Agriculture finance. Included under the control departments is the Chief Risk Officer, Head of Internal Audit, Financial Control, Head of AML and the Compliance officer.

Remuneration paid in 2018 (in KD)

Category 1: 4 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
464,782	13,919	13,943

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
	292,403	

Category 2: 7 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
433,507	15,169	26,400

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
	41,302	

Category 3: 5 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
226,369	10,649	3,138

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
	95,047	





IBK Activities in 2018



IBK Participation in Kuwait Industrial Union Fifth Exhibition



Anti-Money Laundering Seminar at IBK



IBK Participation in “Made In Kuwait “ Exposition



Honoring IBK Staff





The Industrial Bank of Kuwait K.S.C. (Closed)

THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED) AND SUBSIDIARIES
STATE OF KUWAIT

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

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Independent auditor's report

The Shareholders
The Industrial Bank of Kuwait K.S.C. (Closed)
State of Kuwait

Opinion

We have audited the consolidated financial statements of The Industrial Bank of Kuwait K.S.C. (Closed) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with 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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors report included in the Group's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information 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.

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 IFRS as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of 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.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 auditor's 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 auditor's 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.



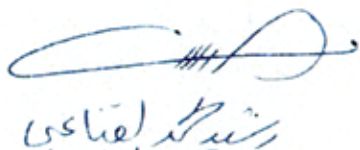
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely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

We communicate with 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.

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, and its Executive Regulations, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was carried out in accordance with recognized procedures 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 2018 that might have had a material effect on the business of the Group or on its consolidated 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 organization of banking business, and its related regulations during the year ended 31 December 2018 that might have had a material effect on the business of the Group or on its consolidated financial position.



Dr. Rasheed M. Al – Qenae
License No. 130 - A
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 5 May 2019

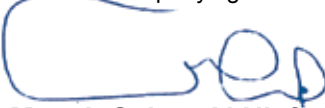
د. رشيد محمد القناعي
مرخص تحت رقم (١٣٠) فئة أ

THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED)
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION ASAT 31 DECEMBER 2018

	Note	2018 KD'000	2017 KD'000
Assets			
Cash and cash equivalents	4	5,932	1,998
Treasury bills and bonds	5	158,099	146,296
Deposits with banks and other financial institutions		82,625	85,404
Investments at fair value through profit or loss	6	83,572	-
Investments carried at amortised cost	6	15,000	-
Investments available for sale	6	-	70,137
Loans and advances to customers	7	332,595	345,439
Investment in associates	8	6,688	6,643
Other assets		9,075	9,034
Property plant and equipment	9	5,819	6,320
Total assets		699,405	671,271
Liabilities			
Deposits from banks and other financial institutions		24,304	14,456
Deposits from customers		72,272	57,331
Other liabilities		20,376	22,097
Term loans	10a	45,929	42,767
Loan from the State of Kuwait	10b	300,000	300,000
Total liabilities		462,881	436,651
Equity			
Share capital	11	20,000	20,000
Treasury shares	11	(3,163)	-
Statutory reserve	11	36,271	35,108
Voluntary reserve	11	140,560	139,397
Retained earnings		36,856	28,054
Proposed dividend	11	6,000	6,000
Fair value reserve	11	-	6,061
Total equity		236,524	234,620
Total liabilities and equity		699,405	671,271

The accompanying notes 1 to 22 form an integral part of these consolidated financial statements.


Musab Salem Al Nisf
Chairman


Ali A. Khajah
Chief Executive Officer

THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED)
STATE OF KUWAIT

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 KD'000	2017 KD'000
Interest income		21,542	20,924
Interest expense		(4,292)	(3,550)
Net interest income		17,250	17,374
Fee and commission income		3,860	4,618
Foreign exchange gain / (loss)		806	(638)
Dividend income		660	709
Income from investments available for sale		-	10,902
Realized income from investments at fair value through profit or loss		7,278	-
Unrealized gains on investment at fair value through profit or loss		5,529	-
Share of results from associates	8	341	341
Bad debts written off recovered		894	3,745
Net other income		76	80
Total income		36,694	37,131
Staff costs	12	(8,021)	(10,901)
Depreciation	9	(547)	(180)
Other expenses		(1,870)	(2,282)
Provision for loans and advances to customers	7	(14,674)	(10,164)
Other provisions charged		(35)	(557)
Reversal of (charge for) impairment on investments		73	(32)
Total expenses		(25,074)	(24,116)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Board of Directors' remuneration and Zakat		11,620	13,015
Contribution to KFAS		(107)	(119)
Board of Directors' remuneration	13	(276)	(242)
Zakat		(103)	(128)
Net profit for the year		11,134	12,526
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in fair value of available for sale investments		-	(6,217)
Changes in fair value of available for sale investments of subsidiaries		-	(54)
Share of other comprehensive income of associates		-	117
Other comprehensive loss for the year		-	(6,154)
Total comprehensive income for the year		11,134	6,372
Basic and diluted earnings per share (KD)	14	5.600	6.263

The accompanying notes 1 to 22 form an integral part of these consolidated financial statements.

THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED)
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital KD'000	Treasury shares KD'000	Statutory reserve KD'000	Voluntary reserve KD'000	Retained earnings KD'000	Proposed dividend KD'000	Fair value reserve KD'000	Total KD'000
Balance at 31 December 2016	20,000	-	33,806	138,095	24,132	6,000	12,215	234,248
Net profit for the year	-	-	-	-	12,526	-	-	12,526
Other comprehensive income for the year	-	-	-	-	-	-	(6,154)	(6,154)
Total comprehensive income for the year	-	-	-	-	-	-	(6,154)	(6,154)
Transfer to reserves (Note 11)	-	-	-	-	12,526	-	(6,154)	6,372
Dividends for 2016	-	-	1,302	1,302	(2,604)	-	-	-
Proposed dividends for 2017 (Note 11)	-	-	-	-	(6,000)	(6,000)	-	(6,000)
Balance at 31 December 2017	20,000	-	35,108	139,397	28,054	6,000	6,061	234,620
Balance at 31 December 2017	20,000	-	35,108	139,397	28,054	6,000	6,061	234,620
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 21)	-	-	-	-	5,994	-	(6,061)	(67)
Balance as of January 1, 2018 after IFRS 9 transition	20,000	-	35,108	139,397	34,048	6,000	-	234,553
Net profit for the year	-	-	-	-	11,134	-	-	11,134
Total comprehensive income for the year	-	-	-	-	11,134	-	-	11,134
Transfer to reserves (Note 11)	-	-	-	-	11,134	-	-	11,134
Purchased treasury shares (Note 11)	-	-	1,163	1,163	(2,326)	-	-	-
Dividends for 2017	-	-	-	-	-	-	-	(3,163)
Proposed dividends for 2018 (Note 11)	-	-	-	-	(6,000)	(6,000)	-	(6,000)
Balance at 31 December 2018	20,000	(3,163)	36,271	140,560	36,856	6,000	-	236,524

The accompanying notes 1 to 22 form an integral part of these consolidated financial statements.

THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED)
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018			
	Note	2018 KD'000	2017 KD'000
Cash flow from operating activities			
<i>Net profit for the year</i>		11,134	12,526
<i>Adjustments for:</i>			
Realised income from investments		(7,278)	(10,902)
Share of results from associates	8	(341)	(341)
Depreciation	9	547	180
Foreign exchange differences		(392)	1,167
Unrealized gains on investment at fair value through profit or loss		(5,529)	-
Provision for loans and advances to customers	7	14,674	10,164
(Reversal)/ charge for other provisions		(39)	589
		12,776	13,383
<i>Changes in:</i>			
– Treasury bills and bonds		(11,803)	5,945
– Deposits with banks and other financial institutions		2,779	21,436
– Loans and advances to customers		(1,831)	(51,471)
– Other assets		(146)	2,320
– Deposits from banks and other financial institutions		9,848	(22,569)
– Deposits from customers		14,941	14,509
– Other liabilities		(1,756)	5,847
Net cash generated from/ (used in) operating activities		24,808	(10,600)
Cash flow from investing activities			
Additions of fixed assets	9	(46)	(2,557)
Net movement in investments		(15,517)	4,260
Cash dividends received from associates	8	296	296
Net cash flow (used in) / generated from investing activities		(15,267)	1,999
Cash flow from financing activities			
Proceed from term loans	10	3,556	15,088
Treasury shares purchased	11	(3,163)	-
Dividends paid		(6,000)	(6,000)
Net cash flows (used in) / generated from financing activities		(5,607)	9,088
Net increase in cash and cash equivalents		3,934	487
Cash and cash equivalents at 1 January		1,998	1,511
Cash and cash equivalents at 31 December	4	5,932	1,998

The accompanying notes 1 to 22 form an integral part of these consolidated financial statements.

THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED) STATE OF KUWAIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Reporting entity

The Industrial Bank of Kuwait K.S.C. (Closed) ("IBK" or "the Bank") is a closed shareholding company incorporated in the State of Kuwait in 1973 under the commercial registration number 20139. It is registered as a bank with the Central Bank of Kuwait ("the CBK") to provide banking services to the industrial projects and investments in related activities and purposes, as set out below:

- Contribute to developing the Kuwaiti economy, diversify its production structure by encouraging creating new industries and support existing industries. For this purpose, it may undertake the operations described explicitly in the Articles of Association with the other necessary operations required by this engagement.
- The Bank may have an interest or to participate in any aspect in other entities conducting similar activities or which may help to achieve its objectives in Kuwait or abroad and may purchase these entities or merge therewith.

The consolidated financial statements of the Bank for the year ended 31 December 2018 comprise the Bank and its following subsidiaries (together referred to as "the Group" and individually "the Group entities") and the Group's interest in associates.

Name of subsidiary	Country of incorporation	Principal activities	Percentage of ownership	
			2018	2017
Kuwait Industrial Projects Company K.S.C. (Closed)	State of Kuwait	Investments	99.6 %	99.6 %
Senaey Enterprises Limited	Grand Cayman, British West Indies	Investments	100 %	100 %
Intermediate Petrochemical Products Company K.S.C. (Closed)	State of Kuwait	Petrochemicals	96 %	96 %
Al Readha Petrochemical Company K.S.C. (Closed)	State of Kuwait	Petrochemicals	96 %	96 %
Warba Readymix Concrete Company S.P.A.	State of Kuwait	Concrete production	100 %	100 %

The Bank's registered office in Kuwait is at Joint Banking Complex, Commercial Area 9, Mubarak Al Kabeer Street, Darwaza Abdul Razaq, P.O. Box 3146, Safat 13032, Kuwait. The number of employees of the Group as at 31 December 2018 is 177 (2018: 189).

The consolidated financial statements were authorized for issue by the Board of Directors on 27/3/2019. The shareholders' annual General Assembly has the power to amend these consolidated financial statements after issuance.



2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the regulations of the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait ("CBK"). These regulations require adoption of all International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) except for the measurement and disclosure requirements of expected credit losses (ECL) on loans and advances to customers under IFRS 9: Financial Instruments. Accordingly, provision for credit losses on loans and advances to customers is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

b) Basis of accounting

The consolidated financial statements are prepared under the historical cost convention, except for derivatives, investments at fair value through profit or loss and investments available for sale that are stated at fair value.

c) Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

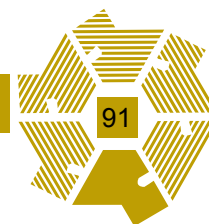
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgments

The preparation of the consolidated financial statement requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in



e) Changes in accounting policies

The Group has adopted the following new standards and amendments to the standards effective current year:

IFRS 9, Financial Instruments

The Group has adopted IFRS 9, Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on loans and advances. The requirements of IFRS 9 represent a significant change from IAS 39, Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in Note 21.

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

Classification of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- (1) Debt instruments measured at amortised cost;
- (2) Debt instruments measured at fair value through other comprehensive income (FVOCI) with gains or losses recycled to statement of income on derecognition.
- (3) Equity instruments at FVOCI with no recycling of gains or losses to statement of income on derecognition; and
- (4) financial assets carried at fair value through profit or loss (FVTPL)

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the consolidated statement of income.

The accounting for financial liabilities will be to large extent the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the statement of profit or loss, unless an accounting mismatch in profit or loss would arise.

The impact of adoption of IFRS 9 is disclosed in Note 21.

Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The credit losses are based on ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the credit loss is based on the change in ECLs over the life of the asset. The Group is also required to calculate provision for credit losses on Loans and advances to customers in accordance with the instructions issued by CBK. Impairment of Loans and advances to customers shall be recognised at the higher of ECL computed based on inputs suggested by CBK instructions for measurement of ECL under IFRS 9, as per CBK guidelines, and the provision required by CBK instructions.

The Group's accounting policies for impairment of financial assets is explained in Note 21. The quantitative impact of adoption of IFRS 9 as at 1 January 2018 is also disclosed in Note 21.

IFRS 15: Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue

to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases). Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Group concluded that the effect of IFRS 15 has immaterial effect on the amounts reported and disclosed in the Group's consolidated financial statements.

f) New standards, interpretations and amendments issued but not effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 with earlier application permitted, however, the Group has not early adopted any new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in

IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group plans to adopt the new standard on the required effective date but does not expect any significant impact of this standard on its consolidated financial statements.

Additionally, the following amended standards and interpretations which are issued but not yet effective, are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

3. Significant accounting policies

The Group has consistently applied the accounting policies set out below to all periods presented in these consolidated financial statements, except as disclosed in note 2 (e).

a) Basis of consolidation

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statement from the date on which control commences until the date on which control ceases.

The Bank reassess 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 listed above.

THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED)
STATE OF KUWAIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

When the Bank has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the Group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Bank. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

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



b) Financial instruments

Classification and measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

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

(1) Financial assets carried at amortised cost:

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- (a) The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows;
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below. Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss and other comprehensive income.

(a) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. 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:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and



- 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). The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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) The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset 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 (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, 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 payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Cash and cash equivalents, treasury bills and bonds, deposits with banks and other financial institutions, loans and advances to customers, certain investments and other assets are classified as financial assets carried at amortised cost.

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

(a) Debt instruments at FVOCI

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows; and
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Financing income and foreign exchange gains and losses and impairment losses are recognised in consolidated statement of profit or loss and other comprehensive income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from equity to profit or loss and other comprehensive income.

The Group does not have debt instrument at FVOCI category as at the reporting date.

(b) Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when 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.

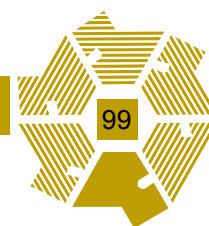
Equity investments at FVOCI are subsequently measured at fair value. Changes in fair value including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in other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

The Group does not have equity instrument at FVOCI category as at the reporting date.

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

The Group recorded and measured financial assets at fair value through profit or loss in the condensed consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset at FVTPL if it doesn't meet the requirements to be measured at amortised cost or at FVOCI and by doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, financing income and dividends are recorded in consolidated statement of profit or loss and other comprehensive income according to the terms of the contract, or when the right to payment has been established.



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Included in this classification are equity securities and funds that have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets available for sale (AFS) - Policy applicable before 1 January 2018

Financial assets available for sale include equity investments. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through consolidated statement of income. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in the consolidated statement of other comprehensive income in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. Profit earned whilst holding available-for-sale financial investments is reported as financing income using the EIR which takes into account any discount/premium and qualifying transaction costs that are an integral part of the instrument's yield. Dividends earned whilst holding available-for-sale financial investments are recognised in the consolidated statement of income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the consolidated statement of income in 'impairment losses on financial investments' and removed from the available-for sale reserve.

Financial guarantees

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a contingent liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, and from 1 January 2018 the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract and from 1 January 2018 the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK.



Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition apart in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

Impairment of financial assets

The Group recognises ECL for Loans and advances to customers, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable) and investment in debt securities measured at amortised cost or FVOCI.

Balances with CBK and Government of Kuwait are low risk and fully recoverable and hence no ECL is measured. Equity investments are not subject to ECL.

Impairment of Loans and advances to customers shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions no. 2/RB/RBA/425/ 2018 dated 25 December 2018 and its subsequent amendments (described in policy applicable before 1 January 2018 below).

The Group applies three-stage approach to measuring expected credit losses “ECL”. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Expected Credit losses

The Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Group will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive, discounted at the effective interest rate of the loan.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group methodology for specific provisions remains largely unchanged.

Lifetime ECL are recorded on financial assets that is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When estimating lifetime ECL for undrawn financing commitments, the Group estimates the expected portion of the financing commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in statement of income, and the ECL provision. For this purposes, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted profit rate relevant to the exposure.

Lifetime ECL is ECL that result from all possible default events over the expected life of a financial instrument. 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. Both life time ECLs 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 instruments.

Determining the stage of impairment

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition and back stop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information. The Group considers an exposure to have significantly increased in credit risk when there is significant deterioration in customer rating compared to rating at origination, restructured due to financial difficulties of the borrowers and other conditions mentioned below.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for financial assets, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events explained below (and not restricted to) are indicators of significant increase in credit risk as opposed to a default.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of loans and advances by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and are taken to Stage 3.

Objective evidence that debt instrument is impaired includes whether any payment of principal or profit is overdue by more than 90 days or there are any known 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. The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

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The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The Group uses Through-The-Cycle PD (TTC PD) for each rating to calculate the ECL. The minimum PD is 1% for Investment Grade for credit facilities and 0.75% for Non-Investment Grade credit facilities except for credit facilities granted to Government and Banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and housing loans (except for credit cards).

The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per CBK requirements, the Group applies 100% Credit Conversion Factor (CCF) on utilized cash and non-cash facilities. For unutilized facilities CCF is applied based on the CBK requirements for leverage ratio issued on 21 October 2014.

The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. CBK has prescribed list of eligible collaterals and minimum hair-cuts that are applied in determination of LGD as noted below:

Collateral type	Haircut
✦ Fixed deposits, cash guarantees, treasury bills and bonds of Kuwait government	0%
✦ Cash in foreign currency	15%
✦ Listed shares other than the shares of lending/ financing bank and listed shares of the customer's related companies (parent company, associate, subsidiary)	25%
✦ Investment Grade bonds/ sukuk	25%
✦ Non-Investment Grade bonds/ sukuk	75%
✦ LGs issued by banks with credit rating no lower than A+ by external credit rating agencies (Moody>s, S&P or Fitch)	0%
✦ LGs issued by banks with credit rating lower than A+ by external credit rating agencies (Moody>s, S&P or Fitch)	70%
✦ Endorsed promissory notes accepted by banks with credit rating no lower than A+ by external credit rating agencies (Moody>s, S&P or Fitch)	0%
✦ Endorsed promissory notes accepted by banks with credit rating lower than A+ by external credit rating agencies (Moody>s, S&P or Fitch)	70%
✦ Real estates	50%



Further for unsecured senior and subordinate loans and advances to customers minimum LGD threshold applied is 50% and 75% respectively.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier except for financial assets in Stage 2, the Group considers a minimum maturity of 7 years for all credit facilities (excluding consumer financing, credit cards and housing financing) unless credit facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financings & credit cards and housing financings in Stage 2, the Group considers minimum maturity of 5 years and 15 years respectively.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, unemployment rates, Central Bank base rates, oil prices, commodity price index and equity price index, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

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 for financial assets 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 other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

Write-offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

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Policy applicable before 1 January 2018

The Group recognises provision charge for loans and advances in accordance with the existing accounting policy for impairment of financial assets carried at amortised cost as disclosed in the annual consolidated financial statements for the year ended 31 December 2017. This complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait.

Evidence of impairment may include: indications that the customer or a group of customers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in profit or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Provisions for credit losses in accordance with CBK instructions

The Group is required to calculate provisions for credit losses on financing receivables in accordance with the instructions of CBK on the classification of financing receivables and calculation of provisions. Financing receivables are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A financing receivable is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired financing receivables are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	Criteria	Specific provisions
Watch list	Irregular for a period of 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

In the current year, the Group has recognized the higher of CBK instructions as per above calculations and ECL losses to be recorded on the consolidated financial statements.



Financial assets available for sale and investment

For available for sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired.

In the case of equity investments classified as financial assets available for sale, objective evidence would include:

- A 'significant' or 'prolonged' decline in the fair value of the investment below its cost and/or; Other information about the issuer that may negatively affect an equity issuer's performance
- 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

As at 31 December 2018, the Group does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 will not have a significant impact on Group's condensed consolidated financial information.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as at 1 January 2018 as described below:

- a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2017 under IFRS 9.
- b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:



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- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
- The designation of certain investments in equity instruments not held for trading as at FVOCI; and
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Offsetting

Financial assets and financial liabilities are offset and the net amounts reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

c) Cash and cash equivalents

Cash and cash equivalents, for the purpose of preparing the consolidated statement of cash flows, comprise of cash and short term funds with banks and financial institutions (including The Central Bank of Kuwait) maturing within seven days.

d) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment.

e) Associates

Associates are those enterprises in which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the associate. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".



Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate.

- The Group recognizes in its other comprehensive income for its share of changes in other comprehensive income of associate.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in 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 associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. If the cost of acquisition is lower than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of profit or loss and other comprehensive income.

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

f) Property, plant and equipment

Property, plant and equipment other than freehold land are stated at cost less accumulated depreciation and impairment losses. Freehold land is stated at cost less impairment losses. Immaterial items of fixed assets are written off in the year of purchase.

Depreciation is provided on buildings and other assets, at a rate calculated to write off the cost on a straight line basis over its expected useful economic life between 5 and 20 years, respectively.

g) Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rate of exchange prevailing on the date of consolidated statement of financial position. Resulting gains or losses on exchange are recorded in the consolidated statement of profit or loss and other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currency, which are stated at historical cost or amortized cost are recorded at the exchange rate ruling at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. Translation differences on non-monetary items such as equity investments classified as investments available for sale are included in the other comprehensive income.

h) Revenue recognition

Interest income is recognized in the consolidated statement of profit or loss and other comprehensive income as it accrues taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

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

Fee and commission income is recognized on delivery of performance obligation.

i) Impairment of non - financial assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss and other comprehensive 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 that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss and other comprehensive 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.

j) End of service indemnity

Employees are entitled to an end of service indemnity payable under the Kuwait Labor Law based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. The expected costs of these benefits are accrued over the period of employment.

Kuwaiti employees

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme, are charged to the consolidated statement of profit or loss in the year to which they relate.

k) Other provisions

Other provisions are recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

l) Fiduciary assets

Third party assets managed by the Group and assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements, but are disclosed in the notes to the consolidated financial statements.

m) Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")

KFAS is calculated at 1% of the profit of the Bank after deducting its share of income from shareholding subsidiaries and associates and transfer to statutory reserve.

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n) Zakat

Contribution to Zakat is calculated at 1% of the consolidated profit of the Bank after deducting its share of profit from Kuwaiti shareholding associates and subsidiaries subject to the same law, also its share of Zakat paid by Kuwaiti shareholding subsidiaries subject to the same law and cash dividends received from Kuwaiti shareholding companies subject to the same law in accordance with Law No. 46 of 2006 and Ministerial resolution No. 58 of 2007 and its Executive Regulations.

o) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the consolidated statement of changes in equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within treasury shares reserve.

4. Cash and cash equivalents

	2018	2017
	KD'000	KD'000
Balances with the Central Bank of Kuwait	1,212	424
Cash on hand and in current accounts with other banks	1,271	1,574
Deposits with banks and financial institutions due within 7 days	3,449	-
	5,932	1,998

5. Treasury bills and bonds

	2018	2017
	KD'000	KD'000
CBK bonds	23,372	5,990
Treasury bills	134,727	140,306
	158,099	146,296

In accordance with the Central Bank of Kuwait guidelines, the Bank is required to maintain 18% of the private customer deposits that are denominated in Kuwaiti Dinars in the form of treasury bills and bonds.

As per CBK circular dated 25 December 2018, no ECL has been recorded against the bonds, treasury bills, and public debt instruments of the Central Bank of Kuwait and the Government of the State of Kuwait.



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6. Investments

Investments at fair value through profit or loss

	2018	2017
	KD'000	KD'000
Quoted equity	9,863	-
Unquoted equity	2,280	-
Unquoted corporate bond	845	-
Funds	70,584	-
	83,572	-

On 1 January 2018, the Group reclassified available for sale investments amounted to KD 70,137 to be investments at fair value through profit or loss.

Investments carried at amortised cost

During the year, the Group purchased unquoted corporate unsecured bonds for Burgan bank for KD 15,000 (2017: Nil). The bonds carry interest of 4.125% and matures in December 2021.

7. Loans and advances to customers

	2018	2017
	KD'000	KD'000
Industrial loans at preferential lending rates	173,478	188,743
Loans and advances at commercial lending rates	176,632	174,488
	350,110	363,231
Less: general and specific provision	(17,515)	(17,792)
	332,595	345,439

The movement in provision:

	Industrial loans			Commercial loans			Total
2018	Specific KD '000	General KD '000	Total KD '000	Specific KD '000	General KD '000	Total KD '000	KD '000
Balance at 1 January 2018	34	3,012	3,046	181	14,565	14,746	17,792
Charge for the year	11,832	(194)	11,638	3,024	12	3,036	14,674
Written off loans	(11,866)	-	(11,866)	(3,085)	-	(3,085)	(14,951)
Balance at 31 December 2018	-	2,818	2,818	120	14,577	14,697	17,515

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2017	Industrial loans			Commercial loans			Total
	Specific KD '000	General KD '000	Total KD '000	Specific KD '000	General KD '000	Total KD '000	KD '000
Balance at 1 January 2017	414	14,220	14,634	237	15,709	15,946	30,580
Charge for the year	1,620	279	1,899	8,291	(26)	8,265	10,164
Transfers	12,190	(11,487)	703	415	(1,118)	(703)	-
Written off loans	(14,190)	-	(14,190)	(8,762)	-	(8,762)	(22,952)
Balance at 31 December 2017	34	3,012	3,046	181	14,565	14,746	17,792

The analysis of the provisions as stated above is based on the requirements of the CBK. In accordance with the CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities, net of certain restricted categories of collateral to which CBK's instructions are applicable and not subject to specific provision, is made. The general provision presented above are for cash facilities which includes an amount of KD 14,007 thousand (2017: KD 14,007 thousand) above the CBK requirements. Provision relating to non-cash facilities amounting to KD 2,248 thousand (2017: KD 2,514 thousand) is included in other liabilities.

The provisions computed as required by CBK guidelines as at 31 December 2018 amounted to KD 17,515 thousand, which is higher than expected credit losses calculated as per IFRS 9 according to CBK guidelines amounting to KD 7,553 thousand.

8. Investment in associates

			Ownership		Carrying value	
			2018	2017	2018	2017
Country of incorporation	Principal activities		2018	2017	KD '000	KD '000
Al Rawdatain Water Bottling Co. K.S.C.C.	State of Kuwait	Production and bottling of mineral water	%30	%30	3,811	3,881
Qaroh P.E.T. Products Co. K.S.C.C.	State of Kuwait	Produce P.E.T	%30	%30	1,483	1,465
Technology Industrial Gases Production Company K.S.C.C	State of Kuwait	Build gas plant	%20	%20	1,394	1,297
					6,688	6,643



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As at year ended 31 December 2018, the aggregate assets, liabilities, income and expenses of associates, not adjusted for the percentage held by the Group, was KD 31,258 thousand, KD 8,190 thousand, KD 2,143 thousand and KD 1,162 thousand respectively. (2017: assets, liabilities, income and expenses amounting KD 31,228 thousand, KD 8,471 thousand, KD 1,901 thousand and KD 1,096 thousand respectively).

The Group's share of results of associates and dividend distributed by associates to the Group during the year ended 31 December 2018 was KD 341 thousand and KD 296 thousand respectively (2017: KD 341 thousand and KD 296 thousand respectively).

9. Property plant and equipment

	Land	Buildings	Others	Total
	KD'000	KD'000	KD'000	KD'000
Cost				
Balance at 1 January 2017	3,672	9,068	2,962	15,702
Additions	-	164	2,393	2,557
Balance at 31 December 2017	3,672	9,232	5,355	18,259
Additions	-	-	46	46
Balance at 31 December 2018	3,672	9,232	5,401	18,305
Accumulated depreciation				
Balance at 1 January 2017	-	8,961	2,798	11,759
Charge for the year	-	14	166	180
Balance at 31 December 2017	-	8,975	2,964	11,939
Charge for the year	-	22	525	547
Balance at 31 December 2018	-	8,997	3,489	12,486
Carrying amounts				
At 31 December 2018	3,672	235	1,912	5,819
At 31 December 2017	3,672	257	2,391	6,320



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10. Loans

a. Term loans

In August 2017, the Bank secured a medium term loan facility of USD 50 million from a foreign bank. The loan carries interest rate of one month LIBOR plus a spread of 1.50%. The interest is reset monthly, and the loan matures in August 2020. As of 31 December 2018, the effective rate of interest for this loan is 3.85%. As at 31 December 2018 the outstanding balance was equivalent to KD 15,165 thousand (2017: KD 15,087 thousand).

During May 2018, the Group secured a medium term loan facility of EUR 45 million from a foreign bank. The loan carries fixed interest rate of 1.05% and the loan matures in May 2021. As of 31 December 2018, the balance is KD 15,599 thousand. (2017:12,593 thousand)

In October 2018, the Bank secured a medium term loan facility of USD 50 million from a foreign bank. The loan carries interest rate of one month LIBOR plus a spread of 1.35%. The interest is reset monthly. As of 31 December 2018, the effective rate of interest for this loan is 3.85%. and the loan matures in October 2021. As at 31 December 2018 the outstanding balance was equivalent to KD 15,165 thousand.

In November 2015, the Bank secured a medium term loan facility of USD 50 million from a foreign bank. The loan carries interest rate of one month LIBOR plus a spread of 1.20%. The interest resets every month. As of 31 December 2018, the effective rate of interest for this loan is Nil (2017: 2.752%) per annum. In November 2018 the loan facility was matured (2017: KD 15,087 thousand).

b. Loan from the State of Kuwait

This represents a revolving credit facility of KD 300 million granted by the State of Kuwait under the amended Law No. 43 of 2007, of Law No. 7 of 2001 issued on 1 July 2007 with the same terms of the previous facility. This facility is valid for a period of 20 years and matures in 2027.

The interest on loan from the State of Kuwait is as follows:

- Interest rate of 0.5% per annum on amounts equal to the outstanding balances and undrawn commitments of industrial loans granted by the Bank at preferential lending rates; and
- The unutilized portion of the loan is subject to interest rate of 3 months KIBOR.



11. Equity

- a) The authorized, issued and fully paid up share capital of the Bank comprises of 2 million shares of KD 10 each, paid in cash (2017: 2 million shares of KD 10 each).
- b) As required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Bank's Articles of Association, 10% of the profit for the year has been transferred to a statutory reserve. Distribution from statutory reserve is limited to enable payment of dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of dividends.
- c) In accordance with Article 48 of the Articles of Association of the Bank, the Board of Directors have proposed to transfer an amount of KD 1,235 thousand (10% of the profit) to voluntary reserve for the year ended 31 December 2018 (2017: KD 1,302 thousand).
- d) For the year ended 31 December 2018, the Board of Directors have proposed a cash dividend of 30% equivalent to KD 3 per share (2017: proposed cash dividend of 30% equivalent to KD 3 per share). The proposal is subject to the approval of the shareholders at the Annual General Assembly Meeting.
- e) The fair value reserve comprises the cumulative net change in fair values of investments available for sale held by the Group.
- f) During the year, the bank acquired its own shares from a shareholder in a public auction as detailed below, as part of a loan settlement with a shareholder. The shares were pledged as collateral to the loan. Treasury shares were purchased by the Group during the year of 89 thousand shares amounted to KD 3,163 thousands.

	2018	2017
Number of shares owned	89,686	-
Percentage to issued shares	4.48%	-
Cost (KD)	3,163,000	-
Market value (KD)	3,163,000	-

The shares were valued using Level 3 inputs.

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12. Staff costs

	2018	2017
	KD'000	KD'000
Salaries and wages	5,087	5,020
Indemnity and social security contributions	1,222	4,125
Other benefits	1,712	1,756
	8,021	10,901

13. Board of Directors' remuneration

The Board of Directors' meeting recommended a payment of KD 276 thousand towards remuneration to members of Board of Directors and committees for the year ended 31 December 2018 (2017: KD 242 thousand).

The Annual General Assembly Meeting of the shareholders held on 10 May 2018, approved Board of Directors' and committees remuneration of KD 242 thousand for the year ended 31 December 2017.

14. Basic and diluted earnings per share (KD)

Basic and diluted earnings per share is computed by dividing the net profit for the year by the weighted average number of shares outstanding during the year. There are no potential dilutive shares.

	2018	2017
Net profit for the year (KD'000s)	11,134	12,526
Weighted average number of outstanding shares during the year (000's)	1,988	2,000
Basic and diluted earnings per share (KD)	5.600	6.263

15. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include significant shareholders and entities over which the Group and shareholders exercise significant influence, directors and executive management of the Group. The Group's management approves the terms of these related party transactions.

As at the date of consolidated statement of financial position, the Bank had 9 Directors (2017: 8 Directors) and 18 Executive Officers (2017: 15 Executive Officers).

The balances included in consolidated financial statements in respect of related parties are as follows:



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	2018	2017
	KD '000	KD '000

Consolidated statement of financial position

Cash and cash equivalents	1,211	424
Treasury bills and bonds	158,099	146,296
Loans and advances to customers	5,175	5,332
Investment in associates	6,688	6,643
Other assets	1,411	1,339
Deposit from customers	18,787	13,546
Other liabilities	159	27
Loan from the State of Kuwait	300,000	300,000
Commitments and contingent liabilities	3,509	3,069

Consolidated statement of profit or loss and other comprehensive income

Share of results from associates	341	341
Other expenses*	36	36

*Other expenses represent remuneration for attending meetings of Board of Directors and committees.

Details of compensation to key management personnel comprise the following:

	2018	2017
	KD '000	KD '000
Salaries and other short term benefits	475	497
End of service indemnity	78	81

Key management personnel of the Group comprise of the key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. Compensation to key management personnel represents remuneration to Chief Executive Officer and three Deputy Chief Executive Officers.

16. Commitments and contingent liabilities

In the normal course of business, to meet the needs of its customers for liquidity, foreign exchange and interest rate protection, and for managing its own exposure to fluctuations in interest rates and foreign exchange rates, and for earning fee revenue, the Group is a party to various financial instruments, which are off- consolidated statement of financial position. These financial instruments are subject to normal credit standards, financial controls and risk management and monitoring procedures.

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a) Financial instruments with contractual amounts representing credit risk

The following table indicates the contractual amounts of the Group's off- consolidated statement of financial position financial instruments that commit it to extend credit to customers. The primary purpose of these instruments is to ensure that funds are available to a customer as required. The contractual amounts represent 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 may expire or terminate without being funded.

	2018	2017
	KD '000	KD '000
Acceptances	4,842	4,319
Documentary letters of credit	16,645	22,249
Letters of guarantee	71,950	61,967
	93,437	88,535

Substantially all acceptances and letters of credit commitments expire within a period not exceeding one year and 40.78 % (2017: 49.6 %) of the guarantees expire within one year.

The contractual or notional amounts in respect of instruments outlined above are used to calculate payments and are a common measure of business volume; however, they are not indicative of credit risk exposure. The credit risk inherent in such contracts, if the counterparty is unable to settle, is limited to the difference between the contracted value of the transaction and the cost of completing it with another party. All the above contracts mature within one year.

b) Other contingent liability

As at 31 December 2018, the contingent liability related to a subsidiary of the Bank amounting to KD 467 thousand (2017: KD 464 thousand).

c) Other commitments

At 31 December 2018, the Group had commitments in respect of uncalled capital contribution relating to investments amounting to KD 64,247 thousand (2017: KD 46,018 thousand).

17. Fiduciary assets

Assets managed for third parties or held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements. At the reporting date, the total amount of fiduciary assets was KD 359,771 thousand (2017: KD 313,303 thousand).



18. Financial risk management

The Group has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk.

Risk management framework

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Board Risk Committee, which is responsible for developing and monitoring Group's risk management policies through the Bank's Risk Management Department.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board Risk Committee is assisted in its oversight role by the Risk Management Department. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

18.1 Credit risk

Credit risk is the risk that the party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has a credit policy and exposure to credit risk is monitored on an ongoing basis by limiting transactions with specific concentration and assessing continuously the creditworthiness of the counterparties.

The maximum exposure to credit risk as at the reporting date is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Information on credit risk relating to off consolidated statement of financial position financial instrument is provided in note 16.

The industry concentration of credit risk pertaining to loans and advances to customers relates to manufacturing and industrial sector is 52% (2017: 50 %) and Government of the State of Kuwait is nil (2017: 8.3%). Geographical concentration of credit risk is reflected in Note 18.1.1.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

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	Maximum credit exposure	
	2018 KD '000	2017 KD '000
Credit risk exposures relating to financial assets on consolidated statement of financial position:		
Cash and cash equivalents	4,720	1,574
Treasury bills and bonds	158,099	146,296
Deposits with banks and other financial institutions	82,625	85,404
Investments at fair value through profit or loss	845	-
Investments available for sale	-	1,394
Investments carried at amortized cost	15,000	-
Loans and advances to customers	332,595	345,439
Other assets	9,075	9,034
Total	602,959	589,141
Credit risk exposures relating to items off consolidated statement of financial position:		
Acceptances	4,842	4,319
Letters of credit	16,645	22,249
Letters of guarantees	71,950	61,967
Total	93,437	88,535
Total credit risk exposure	696,396	677,676

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty and this risk is managed by diversification of the portfolio. The 8 largest gross loans and advances customers outstanding as a percentage of total loans and advances to customers as at 31 December 2018 is 47.87 % (2017: 44.58%).

Collateral and other credit enhancements

The Bank has implemented various policies and practices to minimize credit risk. The Bank seeks collateral coverage, the assignment of contract proceeds and other forms of protection to secure lending and minimize credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with the Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

The Bank's credit facilities are secured by collateral, consisting primarily of mortgage of industrial projects, share or listed securities on the stock exchange and commercial papers.



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Credit quality of financial instruments

Internal credit quality rating

The Bank uses an internal rating system where borrowers are rated on a scale of 1 to 10. Ratings 1 to 4 are considered to be prime credit and therefore categorized as 'High Grade' and ratings 5A to 5C are other performing credits that are categorized as 'Standard Grade'. Ratings 6 to 10 are past due and non-performing credits.

The table below shows the credit risk exposure by credit quality of financial assets by class, grade and status.

2018	Neither Past due nor Impaired		
	High Grade	Standard Grade	Total
	KD '000	KD '000	KD '000

Loans and advances to customers

- Industrial loans	37,925	127,841	165,766
- Commercial loans	42,197	129,098	171,295
Total	80,122	256,939	337,061

2017	Neither Past due nor Impaired		
	High Grade	Standard Grade	Total
	KD '000	KD '000	KD '000

Loans and advances to customers

- Industrial loans	48,904	135,535	184,439
- Commercial loans	50,147	114,030	164,197
Total	99,051	249,565	348,636



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Ageing analysis of loans and advances that are past due but not impaired is as follows:

2018	Past due up to 30 days	Past due 31 to 60 days	Past due 61 to 90 days	Past due more than 90 days	Total
	KD '000	KD '000	KD '000	KD '000	KD '000

Loans and advances to customers

- Industrial loans	1,267	-	4	6,441	7,721
- Commercial loans	750	-	-	4,400	5,150
Total	2,017	-	4	10,841	12,862
Fair value of collateral	18,432	-	362	19,062	37,856

2017	Past due up to 30 days	Past due 31 to 60 days	Past due 61 to 90 days	Past due more than 90 days	Total
	KD '000	KD '000	KD '000	KD '000	KD '000

Loans and advances to customers

- Industrial loans	2,921	-	75	308	3,304
- Commercial loans	8,633	935	30	52	9,650
Total	11,554	935	105	360	12,954
Fair value of collateral	24,199	4,939	1,985	788	31,911

Past due and individually impaired loans are as follows:

2018	Gross exposure	Impairment	Fair value of Collateral
	KD '000	KD '000	KD '000

Loans and advances

- Industrial loans	-	-	-
- Commercial loans	188	120	-
Total	188	120	-

2017	Gross exposure	Impairment	Fair value of Collateral
	KD '000	KD '000	KD '000

Loans and advances

- Industrial loans	34	34	-
- Commercial loans	181	181	-
Total	215	215	-



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18.1.1 Geographical concentration of assets, liabilities and contingent liabilities

2018	Kuwait	GCC	Europe	North America	Asia and Pacific	Latin America	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Assets							
Cash and cash equivalents	5,134	121	326	347	4	-	5,932
Treasury bills and bonds	158,099	-	-	-	-	-	158,099
Deposits with banks and other financial institutions	82,625	-	-	-	-	-	82,625
Investments at fair value through profit or loss	7,712	15,443	16,432	30,885	10,548	2,552	83,572
Investments carried at amortized cost	15,000	-	-	-	-	-	15,000
Loans and advances to customers	332,595	-	-	-	-	-	332,595
Investment in associates	6,688	-	-	-	-	-	6,688
Other assets	9,075	-	-	-	-	-	9,075
Property plant and equipment	5,819	-	-	-	-	-	5,819
Total assets	622,747	15,564	16,758	31,232	10,552	2,552	699,405
Liabilities and equity							
Deposits from banks and other financial institutions	21,531	-	2,773	-	-	-	24,304
Deposits from customers	72,272	-	-	-	-	-	72,272
Other liabilities	20,376	-	-	-	-	-	20,376
Term loans	-	30,330	15,599	-	-	-	45,929
Loan from the State of Kuwait	300,000	-	-	-	-	-	300,000
Equity	236,524	-	-	-	-	-	236,524
Total liabilities and equity	650,703	30,330	18,372	-	-	-	699,405
Acceptances, letters of credit and guarantees	82,592	4,994	3,726	-	2,125	-	93,437

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2017	Kuwait	GCC	Europe	North America	Asia and Pacific	Latin America	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Assets							
Cash and cash equivalents	805	230	344	617	2	-	1,998
Treasury bills and bonds	146,296	-	-	-	-	-	146,296
Deposits with banks and other financial institutions	85,404	-	-	-	-	-	85,404
Investments available for sale	4,655	15,910	14,562	24,186	8,150	2,674	70,137
Loans and advances to customers	345,439	-	-	-	-	-	345,439
Investment in associates	6,643	-	-	-	-	-	6,643
Other assets	9,034	-	-	-	-	-	9,034
Property plant and equipment	6,320	-	-	-	-	-	6,320
Total assets	604,596	16,140	14,906	24,803	8,152	2,674	671,271
Liabilities and equity							
Deposits from banks and other financial institutions	8,662	1,207	4,587	-	-	-	14,456
Deposits from customers	57,327	-	-	-	4	-	57,331
Other liabilities	22,097	-	-	-	-	-	22,097
Term loans	-	30,175	12,592	-	-	-	42,767
Loan from the State of Kuwait	300,000	-	-	-	-	-	300,000
Equity	234,620	-	-	-	-	-	234,620
Total liabilities and equity	622,706	31,382	17,179	-	4	-	671,271
Acceptances, letters of credit and guarantees	71,625	6,640	7,968	151	2,151	-	88,535

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18.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments. Liquidity risk may also result from an inability to sell a financial asset quickly at close to its fair value.

The table below summarizes the maturity profile of the Group's liabilities. The maturities of 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. The actual maturities may differ from the maturities shown below since the borrower may have the right to prepay obligations with or without prepayment penalties, and deposits by customers might have to be repaid on demand.

The maturity profile as at 31 December 2018 was as follows:

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Undiscounted financial liabilities						
Deposits from banks and other financial institutions	24,179	-	-	-	-	24,179
Deposits from customers	62,471	357	9,710	-	-	72,538
Other liabilities	-	-	20,376	-	-	20,376
Term loans	-	-	-	48,685	-	48,685
Loan from the State of Kuwait	-	-	-	-	318,318	318,318
Total undiscounted financial liabilities	86,650	357	30,086	48,685	318,318	484,096

The maturity profile as at 31 December 2017 was as follows:

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Undiscounted financial liabilities						
Deposits from banks and other financial institutions	14,469	-	-	-	-	14,469
Deposits from customers	54,733	350	2,274	-	-	57,357
Other liabilities	-	-	22,097	-	-	22,097
Term loans	-	-	28,087	15,991	-	44,078
Loan from the State of Kuwait	-	-	-	-	316,157	316,157
Total undiscounted financial liabilities	69,202	350	52,458	15,991	316,157	454,158

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The table below shows the contractual expiry by maturity of the Bank's contingent liabilities:

2018	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000

Contingent liabilities	9,860	17,079	23,889	42,408	201	93,437
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2017	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000

Contingent liabilities	16,112	8,850	32,364	31,209	-	88,535
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The maturity profile of the assets and liabilities at the year end based on contractual repayment arrangements is as follows:

2018	Less than one year	From one year to five years	Over five years	Total
	KD '000	KD '000	KD '000	KD '000

Assets

Cash and cash equivalents	5,932	-	-	5,932
Treasury bills and bonds	81,849	62,750	13,500	158,099
Deposits with banks and other financial institutions	82,625	-	-	82,625
Investments at fair value through profit or loss	-	845	82,727	83,572
Investments carried at amortized cost	-	15,000	-	15,000
Loans and advances to customers	169,738	94,106	68,751	332,595
Investment in associates	-	-	6,688	6,688
Other assets	3,262	-	5,813	9,075
Property, plant and equipment	-	-	5,819	5,819
Total assets	343,406	172,701	183,298	699,405

Liabilities and equity

Deposits from banks and financial institutions	24,304	-	-	24,304
Deposits from customers	72,272	-	-	72,272
Other liabilities	20,376	-	-	20,376
Term loans	-	45,929	-	45,929
Loan from the State of Kuwait	-	-	300,000	300,000
Equity	-	-	236,524	236,524
Total liabilities and equity	116,952	45,929	536,524	699,405
Gap on consolidated statement of financial position	226,454	126,772	(353,226)	-



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2017	Less than one year	From one year to five years	Over five years	Total
	KD'000	KD'000	KD'000	KD'000
Assets				
Cash and cash equivalents	1,998	-	-	1,998
Treasury bills and bonds	32,569	95,977	17,750	146,296
Deposits with banks and other financial institutions	85,404	-	-	85,404
Investments available for sale	-	1,394	68,743	70,137
Loans and advances to customers	190,548	79,582	75,309	345,439
Investment in associates	-	-	6,643	6,643
Other assets	8,925	-	109	9,034
Property, plant and equipment	-	-	6,320	6,320
Total assets	319,444	176,953	174,874	671,271
Liabilities and equity				
Deposits from banks and financial institutions	14,456	-	-	14,456
Deposits from customers	57,331	-	-	57,331
Other liabilities	22,097	-	-	22,097
Term loans	27,680	15,087	-	42,767
Loan from the State of Kuwait	-	-	300,000	300,000
Equity	-	-	234,620	234,620
Total liabilities and equity	121,564	15,087	554,620	671,271
Gap on consolidated statement of financial position	197,880	161,866	(359,746)	-

18.3 Market risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. This risk is inherent in the financial instruments associated with our operations and/or activities including loans granted at commercial rates, deposits, securities and trading account assets, and derivatives. The majority of market risk exposure resides in the Bank's treasury and investment functions and market risk through the local equity holdings of the Bank's subsidiary Kuwait Industrial Projects Company K.S.C. (Closed). IBK Risk Management's market risk objectives are to:

- Understand and control market risk by robust measurement and the setting of limits and monitoring of the same.
- Ensuring accuracy in the deal/settlement process
- Facilitate business growth within a controlled and transparent risk management framework.
- Measure and report non-traded market risk.

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18.3.1 Foreign currency risk

Foreign currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates.

The effect on profit, as a result of change in currency rate, with all other variables held constant is shown below:

2018			
Currency	Change in currency rate in %	Effect on profit KD '000	Effect on other comprehensive income KD '000
USD	%±1	113.12	-
GBP	%±1	0.29	-
Euro	%±1	18.31	-

2017			
Currency	Change in currency rate in %	Effect on profit KD '000	Effect on other comprehensive income KD '000
USD	%±1	(425.71)	424.63
GBP	%±1	0.48	-
Euro	%±1	(179.26)	146.88

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2018 Long/(short) KD '000	2017 Long/(short) KD '000
US Dollar	11,312	(108)
Euro	(1,831)	(3,238)
Pound Sterling	29	48
UAE Dirham	58	58
Other	121	275
	<u>9,689</u>	<u>(2,965)</u>

18.3.2 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities of consolidated statement of financial position that mature or re-price in a given period. The table below details the Group's exposure to interest rate risk. Fixed rate instruments are allocated according to the residual term to maturity and floating rate instruments according to the residual term to the next re-pricing date.



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2018	Less than 1 year	1 to 5 Years	Over 5 years	Non-interest bearing items	Total	Effective interest rate / range
	KD '000	KD '000	KD '000	KD '000	KD '000	
Assets						
Cash and cash equivalents	5,745	-	-	187	5,932	0.000 - % 0.295 %
Treasury bills and bonds	81,849	62,750	13,500	-	158,099	2.300 - % 2.434 %
Deposits with banks and other financial institutions	82,625	-	-	-	82,625	2.000 - % 2.264 %
Investments at fair value through profit or loss	-	845	-	82,727	83,572	-
Investments carried at amortized cost	-	15,000	-	-	15,000	4.125 - % 4.125 %
Loans and advances to customers	183,370	91,670	75,071	(17,516)	332,595	3.500 - % 4.511 %
Investment in associates	-	-	-	6,688	6,688	-
Other assets	-	-	-	9,075	9,075	-
Property, plant and equipment	-	-	-	5,819	5,819	-
Total assets	353,589	170,265	88,571	86,980	699,405	
Liabilities and equity						
Deposits from banks and financial institutions	24,304	-	-	-	24,304	0.974 - % 0.200 %
Deposits from customers	72,272	-	-	-	72,272	1.224 - % 0.600 %
Other liabilities	-	-	-	20,376	20,376	-
Term loans	30,764	15,165	-	-	45,929	2.642 - % 0.600 %
Loan from the State of Kuwait	52,766	-	247,234	-	300,000	0.718 - % 0.500 %
Equity	-	-	-	236,524	236,524	-
Total liabilities and equity	180,106	15,165	247,234	256,900	699,405	
On- consolidated statement of financial position gap	173,483	155,100	(158,663)	(169,920)		
Cumulative interest rate sensitivity gap	173,483	328,583	169,920	-		

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2017	Less than 1 year	1 to 5 Years	Over 5 years	Non-interest bearing items	Total	Effective interest rate / range
	KD '000	KD '000	KD '000	KD '000	KD '000	
Assets						
Cash and cash equivalents	1,851	-	-	147	1,998	0.135 % - 0.595 -
Treasury bills and bonds	32,569	95,977	17,750	-	146,296	1.778 % - 2.001 - %
Deposits with banks and other financial institutions	85,404	-	-	-	85,404	1.933 % - 1.952 - %
Investments available for sale	5,019	627	-	64,491	70,137	8.610 % - 11.930 - %
Loans and advances to customers	193,912	74,855	94,464	(17,792)	345,439	3.598 % - 4.385 - %
Investment in associates	-	-	-	6,643	6,643	-
Other assets	-	-	-	9,034	9,034	-
Property, plant and equipment	-	-	-	6,320	6,320	-
Total assets	318,755	171,459	112,214	68,843	671,271	
Liabilities and equity						
Deposits from banks and financial institutions	14,456	-	-	-	14,456	0.466 - % - 0.607 %
Deposits from customers	30,169	-	-	27,162	57,331	0.514 - % - 1.526 %
Other liabilities	-	-	-	22,097	22,097	-
Term loans	42,767	-	-	-	42,767	1.632 - % - 2.950 %
Loan from the State of Kuwait	14,544	-	285,456	-	300,000	0.562 - % - 0.597 %
Equity	-	-	-	234,620	234,620	-
Total liabilities and equity	101,936	-	285,456	283,879	671,271	
On- consolidated statement of financial position gap	216,819	171,459	(173,242)	(215,036)		
Cumulative interest rate sensitivity gap	216,819	388,278	215,036	-		

The sensitivity to 1% rate change on overall net interest long position amounts to KD 1,732 thousand (2017: KD 2,150 thousand).

18.3.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks.

The effect on profit or loss (2017: other comprehensive income) as a result of a change in the fair value of equity instruments held at fair value through profit or loss (2017: available-for-sale at 31 December 2017) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2018	2017
	KD '000	KD '000

Change in the Kuwait Stock Exchange index:

Effect on investment portfolios on 10% change in index	986 ±	952 ±
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The Group's other significant investments are held in well diversified portfolio of funds which invest in a variety of securities whose performance cannot necessarily be measured with relation to movement in any specific equity index.

18.3.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

19. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants as at the measurement date. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (i.e. derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (Level 3).



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The fair value of investments in quoted securities are determined only based on Level 1 fair value measurement which is the quoted market prices prevailing at the reporting date. The fair value of the Funds was determined based on Level 2 fair value measurement, derived after applying a haircut on the net assets value of the funds reported by the investment managers. During the year ended 31 December 2018, there were no transfers between Level 1 and other levels of fair value measurement.

The following table presents the Group's assets and liabilities that are measured at fair value for the current and comparative year:

2018	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
Quoted equity	9,863	-	-	9,863
Unquoted equity	-	-	2,280	2,280
Unquoted corporate bonds	-	845	-	845
Funds	-	70,584	-	70,584
Total	9,863	71,429	2,280	83,572

2017	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
Quoted equity	-	-	1,394	1,394
Unquoted equity	9,524	-	-	9,524
Unquoted corporate bonds	-	57,150	-	57,150
Total	9,524	57,150	1,394	68,068

As of December 31, the fair value of financial assets and financial liabilities other than the above were not significantly different from their carrying amounts. Bond balance reduced in 2018 by KD 549 thousand (2017: KD 126 thousand) due to payments received. The fair value of the financial assets and financial liabilities set out above are subjective in nature and are significantly affected by the assumptions made and discount rates used. The following is a summary of the valuation methods and assumptions used to estimate fair values:



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a) Other on-financial position financial instruments

The fair values of all other on-consolidated statement of financial position financial instruments were estimated to be equal to their respective carrying amounts due to their short term nature and / or because they carry floating interest rate.

b) Off-financial position financial instruments

No fair value adjustment is required with respect to credit-related off consolidated statement of financial position items, which include acceptances, letters of credit, guarantees and commitments to extend credit, since the related future income streams materially reflect contractual fees and commissions actually charged at the date of consolidated statement of financial position for agreements of similar credit standing and maturity. Specific provisions have been made in respect of individual transactions, where a potential loss has been identified. Such provisions are included in other liabilities.

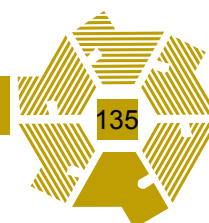
20. Capital management

The primary objectives of the Group's capital management policy are to ensure that Group complies with regulatory requirements and that the Group maintains a strong credit ratings and healthy capital ratios in order to support its business and maximize shareholder value. Capital adequacy ratio, financial leverage ratio and the use of various levels of regulatory capital are governed by guidelines of Basel Committee on Banking Supervision as adopted by CBK.

The Group's regulatory capital and capital adequacy ratio calculated under Basel III in accordance with CBK circular number 2/RB, RBA/ 336/2014 dated 24 June 2014, are as shown below;:

	2018	2017
	KD '000	KD '000
Risk weighted assets	574,050	565,635
Total minimum capital required	74,627	73,532
Common Equity Tier 1(CET1) Capital	230,522	225,322
Tier 2 Capital	6,709	6,620
	<u>237,231</u>	<u>231,942</u>
CET 1 capital adequacy ratio	40.16%	39.84%
Tier 1 capital adequacy ratio	40.16%	39.84%
Total capital adequacy ratio	41.33%	41.01%

The Group's financial leverage ratio for the year ended 31 December 2018, is calculated in accordance with CBK circular number 2/BS/342/2014 dated 21 October 2014 and is shown below:



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	2018	2017
	KD '000	KD '000
Tier 1 Capital	230,522	225,322
Total exposure	772,734	741,951
Leverage ratio	29.83%	30.37%

21. Impact on adoption of IFRS 9

The impact of change in accounting policy as at 1 January 2018 has been to increase retained earnings by KD 5,994 thousand, and to decrease the fair value reserve by KD 6,061 thousand as follows:

	Retained earnings	Fair value reserve
Closing balance under IAS 39 as at 31 December 2017	28,054	6,061
<i>Opening balance impact on reclassification and re-measurement</i>		
Investment securities (funds and equity) from available-for-sale to FVTPL	6,061	(6,061)
<i>Opening balance impact on recognition of ECL on financial assets other than loans and advances to customers</i>		
ECL under IFRS 9 for financial assets at amortised cost	(67)	-
Total transition adjustment on adoption of IFRS 9 as at 1 January 2018	5,994	(6,061)
Opening balance under IFRS 9 as at 1 January 2018	34,048	-

Classification of financial assets on the date of initial application of IFRS 9

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018.



	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re-measurement ECL	New carrying amount under IFRS 9
Financial assets					
Cash and cash equivalents	Loans and advances	Amortised cost	1,998	-	1,998
Treasury bills and bonds	Loans and advances	Amortised cost	146,296	-	146,296
Deposits with banks and other financial institutions	Loans and advances	Amortised cost	85,404	(17)	85,387
Loans and advances to customers	Loans and advances	Amortised cost	345,439	-	345,439
Investments in funds	Available for sale investments	FVTPL	57,150	-	57,150
Investments in unquoted equity	Available for sale investments	FVTPL	2,069	-	2,069
Investments in quoted equity	Available for sale investments	FVTPL	9,524	-	9,524
Investments in corporate bonds	Available for sale investments	FVTPL	1,394	(50)	1,344
Other assets	Amortised cost		9,034	-	9,034
Total financial assets			658,308	(67)	658,241

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

The adoption of IFRS 9 did not result in any change in the measurement of loans and advances. Loans and advances are carried at amortised cost using effective interest rate method less any amounts written off and provision for impairment. The provision for impairment is based on the provisioning requirements of the Central Bank of Kuwait.

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

	Impairment allowances under IAS 39 at 31 December 2017	Re-measurement	Expected credit losses under IFRS 9 at 1 January 2018
Financial assets at amortised cost	-	67	67
Total expected credit losses	-	67	67

22. Comparative Figures

Certain prior year numbers have been reclassified to conform to current year presentation. These reclassifications have no impact on net income or total equity of the Group.



The Industrial Bank of Kuwait K.S.C. (Closed)

Chairman of the Board
Mr. Musab Salem Al Nisf
22337602 - 22337603

Chief Executive Officer (CEO)
Mr. Ali A. Khajah
22337611

Manager, Accounts Department

Mrs. Loulwa M. Al-Attal

22337355

**Manager, Direct Investment
And Promotion Department**

Mr. Jamal B. Al Rumaih

22337800

**Manager, Corporate Finance
Department**

Mr. Abdulaziz M. Qabazard

22337557

Manager, Treasury Department

Mr. Nawaf Y. Al-Munafi

22337070

Legal Advisor, Legal Department

Mr. Ashraf Salam

22337203

Chief Risk Officer

Risk Management Department

Mr. Bhaskar Majumdar

22337420

Head, Anti Money Laundering Unit

Miss Hanadi Jumah

22337505

**Assistant Manager, Information
Technology Department**

Mr. Basel S. Al-Bader

22337636

Board Secretary

Mr. Khalid M. Al-Humoud

22337575

Manager, Research Department

Mr. Jasem A. Al-Ammar

22337300

Manager, Operation Department

Mrs. Shawqiya M. Towfiqi

22337003

UCs Section

22337058

Industrial Loans Section

22337018

Current Account Section

22337038

Corporate Finance Section

22337005

Portfolio Management Section

22337049

Communication Section

22337194

**Manager, Administration
Department**

Mr. Bassam S. Buresli

22337901

Media & Training Section

22337950

Personal Section

22337931

General Services Section

22337909

General Registration Section

22337944

Media & Marketing Section

22337939

Mr. Youssef Homairy Head,

Compliance Unit

22337015

Disclosure Unit

22337015

Deputy Chief Executive Officer

Finance and Investment

Mr. Jawad H. Al-Qallaf

22337888

Manager, Follow-Up Department

Mr. Fadhel A. Ma-Hussain

22337100

Manager, Project Department

Mrs. Iman N. Al-Salamah

22337408

**Manager, Al-Senai Portfolio
for Small Enterprises**

Mr. Abdullah M. Al-Otabi

22337188

**Manager, Agricultural
Finance Portfolio**

Mr. Osamah M. Al-Othman

22337700

**Manager, Industrial Financing
Portfolio according
to Islamic Sharia**

Mrs. Iman N. Al-Salamah

22337408

Manager, Internal Audit Department

Mr. Abdulkarim M. Ibrahim

22337345

Head, Financial Control Unit

Mr. Emad J. Salman

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**Assistant Manager, Credit
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Mr. Mohammad Al-Sayegh

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