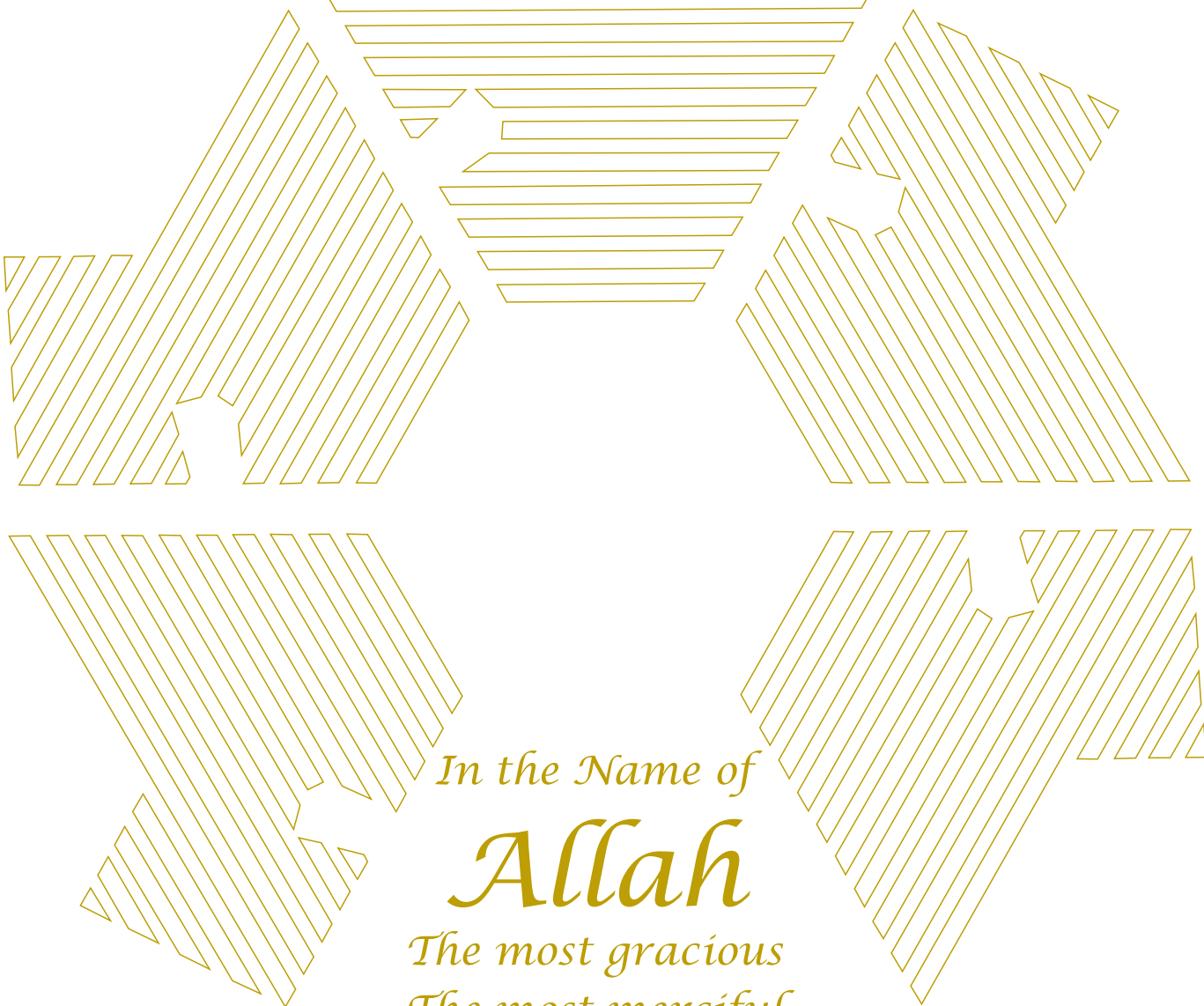




2019 ANNUAL REPORT



The Industrial Bank of Kuwait K.S.C.C



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 Sabah Al-khalid Al-Ahmad 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.





About The Bank

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:

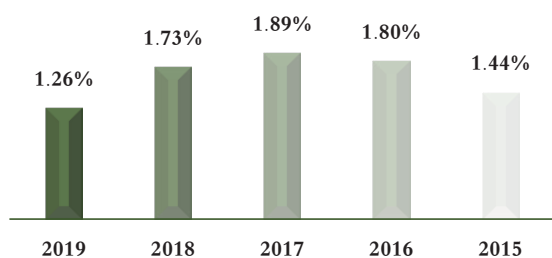
- To participate in developing a long-term strategy for industrial growth in Kuwait and identifying those sectors and activities which would best suit local conditions and constraints;
- To initiate industrial projects and investments in promising sectors;
- To provide financing whether in the form of 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.



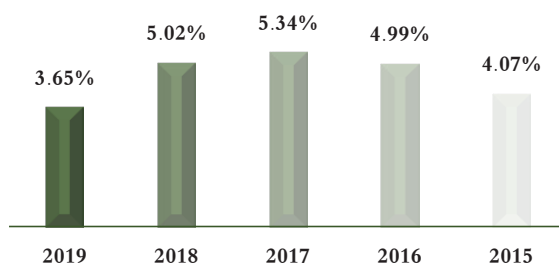


Financial Highlights

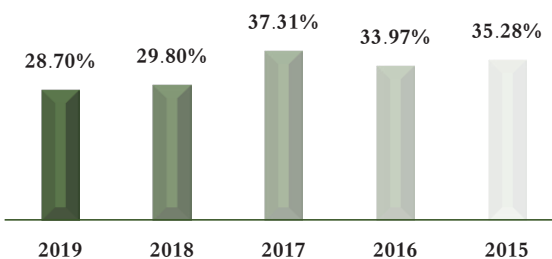
Return on Average Assets (ROA)



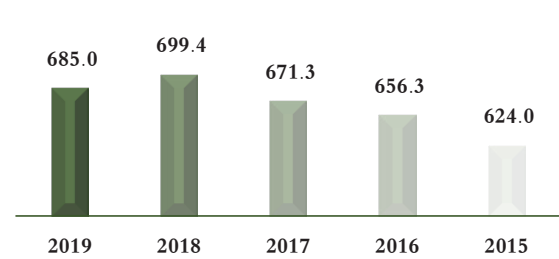
Return on Average Equity (ROE)



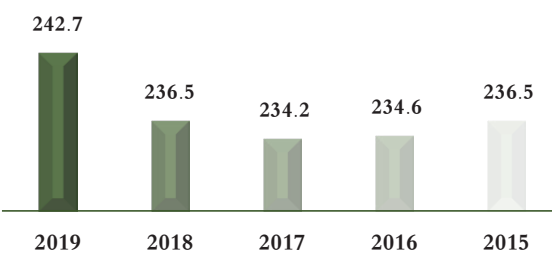
Cost to Income Ratio



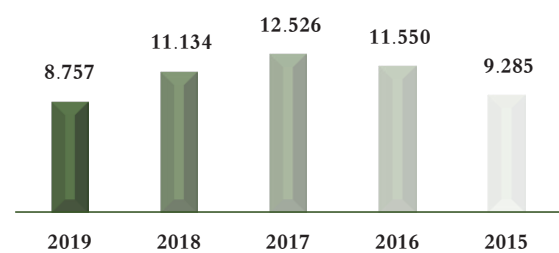
Total Assets



Total Equity



Net Profit





Kuwait's Economy 2019

Kuwait's non-oil growth strengthened in 2019 but lower oil prices and oil output curbs are weighing on the oil sector. IMF estimates overall growth of around 0.7% in 2019 compared to 1.2% in 2018. The non-oil growth was boosted by strong Government and consumer spending. Personal consumption lending grew strongly. IMF forecast 3% growth in non-oil sector of economy during 2020.

Kuwait Government's draft budget for 2020/2021 shows revenue declining 6.5% to KD 14.8 billion, with spending unchanged at KD 22.5 billion, on an oil price of \$ 55/bbl and oil production of 2.7 million b/d. Deficit is projected at KD 9.2 billion, after the transfer to posterity reserve.

Budget 2020/2021 (KD Mil)

Oil revenues	12,912
Non-oil revenues	<u>1,874</u>
Total revenues	14,786
Future Generation Fund transfer	<u>1,479</u>
Total expenditures	22,500
Fiscal deficit	(9,193)

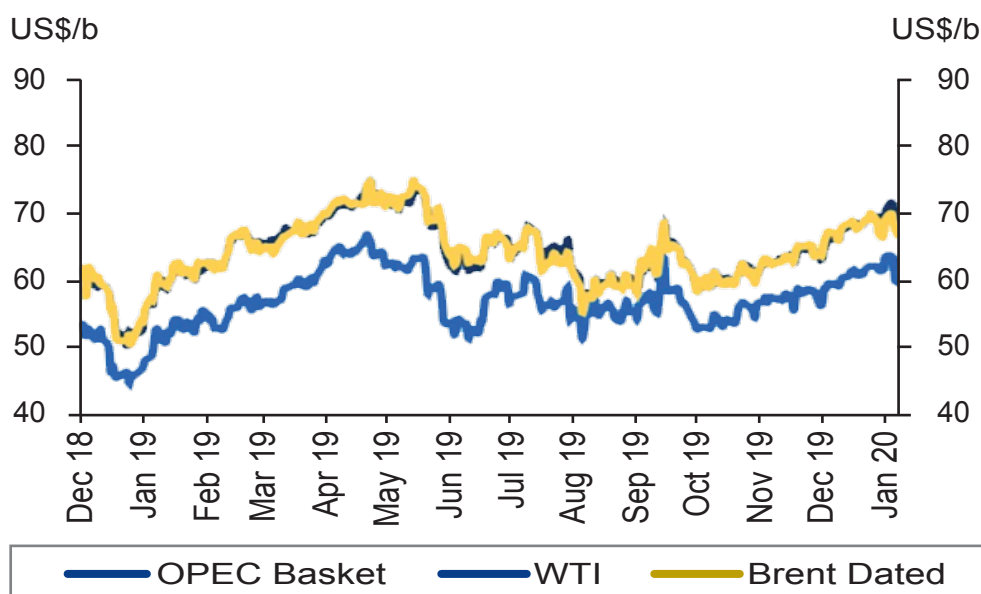
Budgeted Capex at 16% of total expenditure would drive economic growth in 2020. Plans to invest USD 115 billion in the oil sector over the next five years should further boost oil production. Resumption of production in the shared fields with Saudi Arabia would boost oil sector output.

Key external risks include volatility in oil prices and spillovers from geopolitical tensions. A slowdown in global growth would result in a decline in oil prices, putting pressure on fiscal balances.

The new debt law is awaiting parliamentary approval and the Government is unable to issue new debt since September 2017. Kuwait has continued to rely on the General Reserves Fund for deficit financing.



Crude oil prices in 2019

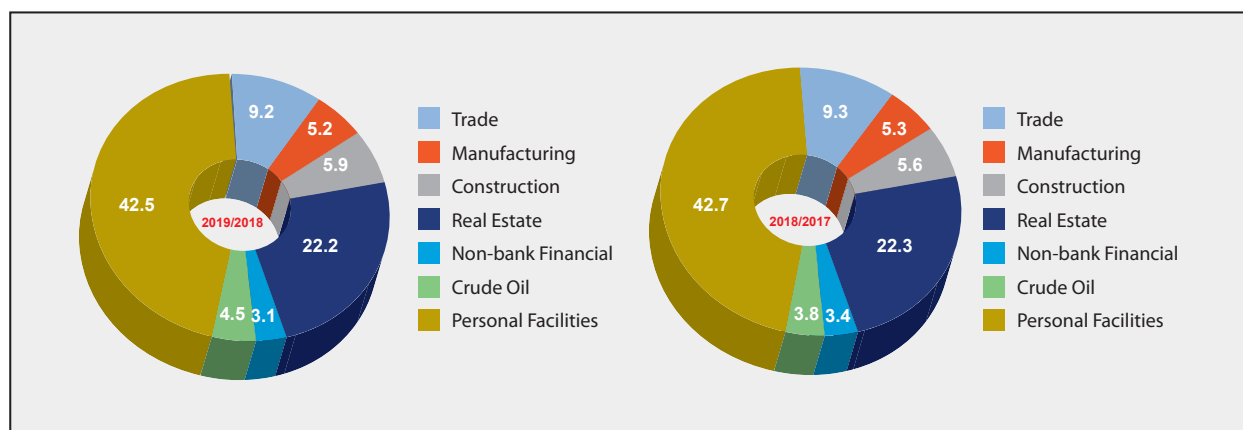


Sources: Argus Media, OPEC Secretariat and Platts.

Credit facilities provided by local banks to Residents, represented by the cash portion utilized, is given in the table for the year 2018-2019. Total utilized cash credit facilities reached KD 37.4 Billion, an increase of 5.2% over 2017-2018.

Share of the Industrial sector is 5.2% of the total facilities utilized by all sectors.

Relative Importance of Balances of Utilized Cash Portion of Credit Facilities Extended to Residents (%)



Source: Central Bank of Kuwait



Developments of Balances of Utilized Cash Portion of Credit Facilities Extended to Residents by Local Banks (KD Million)				
End of Period	17/2018 (1)	18/2019 (2)	Change in (2) over (1) Value (%)	
Total utilized cash credit facilities, of which:	35.56	37.42	1.86	5.2
Trade	3.32	3.44	0.13	3.9
Industry	1.88	1.95	0.016	3.3
Construction	1.98	2.05	0.11	5.8
Non-bank Financial Institutions	1.19	1.14	(0.052)	(4.4)
Personal Facilities	15.16	15.91	0.74	4.9
Real-Estate	7.92	8.31	0.38	4.9
Crude Oil and Gas	1.36	1.66	0.30	22.2
<i>Source: Central Bank of Kuwait</i>				

Credit growth is expected to pick up, as capital projects come on stream. The Refinery project, Clean Fuels project, Airport expansion and LNG terminal are expected to be operational during 2020/2021.

Kuwait Stock Exchange upgrade to Emerging Market status by Morgan Stanley (MSCI) in November 2020 is expected to bring in about \$3.5 Billion of inflows, as per IMF estimates.

Kuwait manufacturing sector

Kuwait has adopted a long term national economic strategy, Kuwait Vision 2035, aimed towards moving the economy away from oil dependency. The Vision's flagship project-Northern Gulf Gateway- is expected to attract Foreign Direct Investments, creating job opportunities. Opening of Sheikh Jaber Causeway project, linking Kuwait city with Al-Subiya, paves the way for future Silk City project.

Public Authority for Industry (PAI) annual report for 2018-2019 provides information on total number of new licenses issued in the Industrial sector.

Seventy new licenses were issued for Industrial establishments during 2018-2019 and the total number of Industrial establishments reached 1156. Share of manufacturing output is estimated to be 7.3% of GDP during 2018-2019.



Industry	Number of New Licenses for Industrial Establishment	Total Number of Licensed Industrial Establishments	Total Number of Licensed Industrial Handicrafts
Food & Beverages	4	155	712
Textiles	2	28	122
Wood & Wood products including furniture	5	88	327
Paper & Printing	8	86	216
Chemical Products	20	214	150
Non-Metallic Minerals	13	231	99
Basic Metals	-	122	524
Fabricated Metal Products	18	210	561
Other Manufacturing	-	22	78
Total	70	1,156	2,789

Source: Public Authority of Industry

Kuwait improves to 66th position (out of 190), in the World Bank index of 'Ease of doing business'
Kuwait is ranked 46 (out of 141 countries) in the Davos global index of competitiveness.

Kuwait: Economic indicators 2018-2020

Key indicators	2018	2019	2020
Sovereign ratings	AA (S&P, Fitch)		
GDP (Billions, KD)	42	41	43
Current account (\$ Billions)	20.4	11.6	11.6
Govt. revenues (% GDP)	60.9	59.9	58.0

Monetary policy update

The US Fed cut rates by 0.25% three times during 2019 (July, September and October). These cuts almost offset the estimated increase of the 100 bps rate hikes during 2018. US interest rates appear to be on a prolonged hold and policy makers are expected to keep interest rates steady at 1.5% -1.75%.

Central Bank of Kuwait lowered the Discount rate from 3% to 2.75% in October 2019 for the first time since 2012.



The Chairman's Message



Distinguished Shareholders,

On my behalf and on behalf of the members of the Board of Directors, I am honored to present to you The Industrial Bank of Kuwait's 2019 Annual Report, which sheds light on the most prominent achievements of The Bank and its consolidated financial statements for the year ended December 31, 2019.

The year 2019 was marked by many challenges due to the global economic conditions and the shrinking credit environment. Nevertheless, the Industrial Bank of Kuwait managed to maintain the level of performance by the growth achieved in its total operating revenues to satisfactory levels as indicated by the financial indicators for the end of the year.

Also, The Industrial Bank of Kuwait maintained its high credit rating through its high performance. Fitch Rating Agency has affirmed Industrial Bank of Kuwait (IBK) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook driven by high capitalization and extremely high probability of support from the Kuwaiti Government. Fitch has also affirmed the bank's Short-Term Foreign Currency IDR at F1.

The strategic vision of the Board of Directors includes the promotion and development of the industrial sector in Kuwait through concessional terms for financing. During the year 2019, The Bank funded 29 industrial projects with a total cost of approximately of KD 52.8 million.

Also, The Industrial Bank of Kuwait participates in supporting the economic development through management of three specialized portfolios on behalf of the government aiming to finance handicraft and small industrial establishments, Finance agriculture and agricultural production projects and industrial financing for projects in accordance with the provisions of Islamic Sharia.

The Bank, through Al-Senai for Small Enterprises Portfolio, financed 224 projects in various activities with a total cost of KD 22.6 million. We also financed through the Agricultural Finance Portfolio, 56 projects with a total cost of approximately KD 8.9 million as compared to KD 4.1 million in the previous year, for 54 projects in agricultural activities, animal production and fishing.



From other hand, The Islamic Industrial Finance Portfolio also financed 5 projects, in accordance with Islamic Sharia with a total cost of KD 28 million as compared to KD 1.5 million the previous year.

Therefore, I am pleased to report that, The Industrial Bank of Kuwait achieved satisfactory results for the Financial Year ended in 2019, noting that we are still continuing our mission to achieve excellence.

Also, we confirm our commitment to improve our services and automated systems to meet the requirements of the customers of the industrial sector, ensuring continued success and increasing the customer base to achieve stability in operating revenues and support the development of the industrial sector.

Strategy for shaping the future

During 2019 ,The Industrial Bank of Kuwait unified the efforts to formulate a new vision 2020-2024 in order to sustain success and address internal and external a challenges imposed by uncertainty in global economy and the revolution in modern financial technologies that is expected transform financial services and change the way customers interact with banks.

The new strategy 2020-2024 centered in its entirety towards improving existing relationships with clients to understand their financing needs and to the develop services provided to them through amendment of certain administrative procedures, most notably , the bank's organizational structure to establish a specialized customer relationship management department and by intensifying training and qualification of the national workforce to support development of industrial sector in line with the policy of diversification of income sources and the productive base of the national economy.

The Industrial Bank of Kuwait hereby tenders its sincere 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.

Also I would like to offer my 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. I also extend my sincere thanks to the colleagues of the Board of Directors for their cooperation and contribution in achieving the goals of The Bank, as well as to all The Bank employees for their efforts and sincerity in the performance of their responsibilities, which enabled The Bank to achieve its mission.

May Almighty Allah bless all our efforts

Musab Salem Al Nisf



Capitalization & Ownership

As of end of 2019, IBK's shareholders and holdings are shown in the table below including treasury shares:

#	Shareholder Name	No. of Shares	%
1	The Government of Kuwait	627,803	31.39
2	Wafra International Investment Company K.S.C.C	361,060	18.05
3	The Central Bank of Kuwait	251,121	12.56
4	The Public Institution for Social Security	103,139	5.16
5	Commercial Bank of Kuwait S.A.K.	89,686	4.48
6	Al-Ahli Bank of Kuwait K.S.C.	89,686	4.48
7	Kuwait Flour Mills & Bakeries Co. S.A.K.	89,686	4.48
8	Privatization Holding Company K.S.C.	89,686	4.48
9	Kuwait Investment Company S.A.K.	71,749	3.59
10	Arab Investment Co. K.S.C.C	53,812	2.69
11	Financial Assets Company Bahrain W.L.L.	49,496	2.48
12	KAMCO Investment Company K.S.C.	17,937	0.90
13	Bobyar Petrochemical Company K.S.C.	13,453	0.68
14	Gimbal Holding Company S.P.C.	2,000	0.10
15	Treasury Shares	89,686	4.48
Total		2,000,000	100

Board of Directors



Mr. / Musab S. Al Nisf

Has a Bachelor degree in accounting (1998)

Chairman (From 31/5/2018)

A representative of Kuwait Investment Authority

THE Founder & Partner of Kmedix General Trading Co.

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



Mr. / Salah M. Al-Kulaib

Vice chairman (From 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 (From 6/6/2017)

A representative of Central Bank of Kuwait

Has a Bachelor degree in accounting (1997)

Executive Director - Information Technology & Banking Operations

Central Bank of Kuwait (2016)



Mr. / Khaled H. Al Shatti

Board Member (From 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-Fadhalah

Board Member (From 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 (From 6/6/2017)

A representative of the Public Institution for Social Security

Director Manager Chairman:

Ahli United Bank (Bahrain).

Ahli United Bank (United Kingdom).

Wafra Intervest Co. (New York).

Kuwait Medical City Co.

Board Member:

Puplic Institution for Social Security.

Kuwait Awqaf public foundation.

Has a Bachelor degree in Science- Major in Marketing - Minor International Studies (1996) University of South Florida - USA



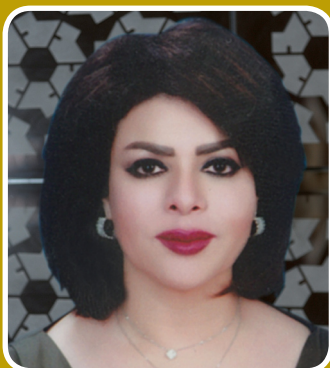
Mrs. / Basma A. Al-Farsi

Board Member (From 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 (From 10/5/2018)

A representative of the Kuwait Investment Authority

Unit Manager Portfolio Monitoring & Reporting - Kuwait Investment Authority (2017)

Board Member – Equity Holding Co. (Egypt)

Has a Bachelor degree in Computer Science (1994)

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

Has a Bachelor degree in Mechanical Engineering (2001)

Kuwait Investment Authority (2010)

Specialist, Custodian Relationship - Investment Accounts Dept.

**Shaikha / AlAnoud Athbi Al-Sabah****Board Member (From 12/11/2019)****A representative of Commercial Bank of Kuwait**

VP Operations – Securities Group Co.

AL Jazeera Real Estate Development Co.

Gulf Friends Real Estate Co.

-Mowasat Health Care Co.

Has a B.S. Business Administration – Finance

American University of Kuwait.





Board of Directors and Committees

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 - Chairman	8	8
Mr. / Salah M. Al-Kulaib – Vice Chairman		6
Mrs. / Aljazi Ali Al-Mishwat		6
Mrs. / Al Anood Athbi Al Sabah (From 12/11/2019)		2
Mr. / Anwar B. Al Ghaith		6
Mrs. / Basma A. Al-Farsi		7
Mr. / Khaled H. Al Shatti		8
Mr. / Khalid A. Al-Fadhalah		6
Mrs./ Rasha F. Alamir		6
Mr. / Meshal A. Al Othman		8

Board Committees

Governance Committee

Governance Committee specialized in assisting 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	3	3
Mr. / Khalid A. Al-Fadhalah Member - Vice Chairman		2
Shaikha / Al Anoud Athbi Al-Sabah - Member (From 19/11/2019)		0
Mr. / Anwar B. Al Ghaith - Member		3
Mrs./ Rasha F. Alamir - Member		3

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.
Mrs. Rasha F. Alamir Chairman (From 30/12/2019)	6	6
Mrs. / Basma A. Al-Farsi - Member Vice Chairman (From 30/12/2019)		6
Shaikha / Al Anoud Athbi Al-Sabah - Member (From 19/11/2019)		1

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		4
Mrs. / Basma A. Al-Farsi - Member - Member		3
Mr. / Meshal A. Al Othman - Member		4

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	6	5
Mrs. / Aljazi Ali Al-Mishwat - Vice Chairman (From 04/02/2019)		5
Mr. / Khaled H. Al Shatti - Member		6

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	6	6
Mr. / Salah M. Al-Kulaib - Vice Chairman		6
Mr. / Meshal A. Al Othman - Member		6



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

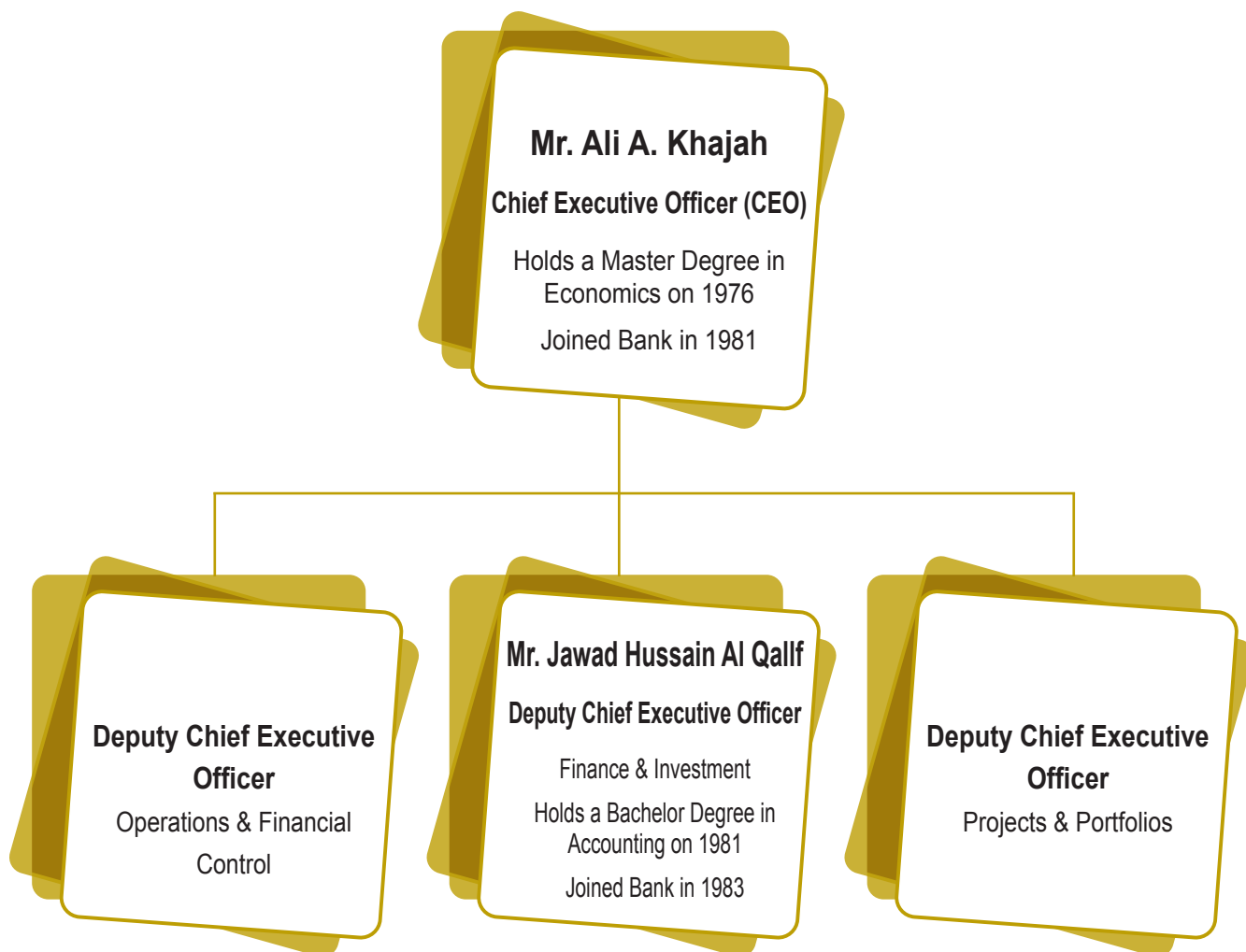
The Bank must make all disclosures as stated within the Bank's Disclosure Policy.

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.



Executive Management







Corporate Governance Report

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 2019, 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:

<https://www.ibkuwt.com/en/about-ibk/corporate-governance-2>.



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	Nb. Of Staff	Remuneration Paid (annual)			
		Fixed	Mode of Payment	Variable	Mode of Payment
First Category	2	Salaries: 266,880 KD Tickets: 1,852 KD Insurance benefits: 7,609 KD Yearly bonus: 40,032 KD Social Security: 7,425 KD	Cash Cash Cash Cash Deferred Cash	Special bonus: 244,636 KD	Cash
Second Category	5	Salaries: 196,716 KD Tickets: 5,261 KD Insurance benefits: 10,483 KD Yearly bonus: 29,507 KD Social Security: 3,249 KD	Cash Cash Cash Cash Deferred Cash	Special bonus: 64,922 KD	Cash
Third category	7	Salaries: 321,610 KD Tickets: 7,155 KD Insurance benefits: 12,969 KD Yearly bonus: 48,242 KD Social Security: 24,984 KD	Cash Cash Cash Cash Deferred Cash	Special bonus: 144,263 KD	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 Internal Auditor (6 persons) amounted to 966,102 KD.

The financial remuneration package paid to the Board of Directors amounted to 276,000 KD.

External auditor's certificate on the evaluation of the Bank's internal control systems



**RSM Albazie Consulting W.L.L.**

Arraya Tower 2, Floors 41 & 42
Abdulaziz Hamad Alsaqar St., Sharq
P.O. Box 2115, Safat 13022, State of Kuwait

T +965 22961000

F +965 22412761

www.rsm.global/kuwait

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

In accordance with our engagement with The Industrial Bank of Kuwait K.S.C.C vide letter dated January 24, 2019, we have examined the accounting records and other records and internal control systems of The Industrial Bank of Kuwait K.S.C.C. which were in existence during the year ended December 31, 2018. The areas examined were as follows:

- | | |
|--|--|
| 1. Administration Department | 12. Risk Management |
| 2. Direct Investments and Promotion Department | 13. Board Secretary |
| 3. Corporate Finance Department | 14. Project Department |
| 4. Treasury and Securities Department | 15. Follow up Department |
| 5. Credit Admin Department | 16. Research Department |
| 6. Accounts Department | 17. Compliance Unit |
| 7. Information Technology Department | 18. Disclosure Unit |
| 8. Operations Department | 19. Financial Control |
| 9. Legal Department | 20. Agriculture Finance Portfolio |
| 10. Internal Audit | 21. Al-Senai Portfolio for Small Enterprises |
| 11. Anti-Money Laundering Unit | 22. Industrial Finance Portfolio |

Our examination has been carried out with regard to the Central Bank of Kuwait's General guidelines manual dated on (2/TBA/96/2003) for internal control systems of banks, and audited reports on the Evaluation thereof, issued on 14 November 1996 and in accordance with International Auditing Standards.

- General guidelines manual for internal control systems of banks, and auditors reports on the evaluation thereof.
- The rules and governance regulations of the Kuwaiti banks regarding risk management and internal controls.
- Regulations of Anti Money Laundering and Combat Financing Terrorism dated 23/7/2013.
- Regulations to maintain the confidentiality of customer information and data issued 9/2/2013.
- Securities activities

We would like to indicate that you as the Board Directors of the Industrial Bank of Kuwait are responsible for establishing and maintaining adequate accounting systems, other records and internal control systems for your Bank, taking into account that the related cost of such systems should be commensurate with the benefits expected from implementation thereof. It shall be observed that the objective of this report is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that risks are properly monitored and evaluated, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent manner, with care and caution.

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

In our opinion, having regard to the nature and scale of the business, during the year ended December 31, 2018, the accounting records and other records and internal control systems examined by us were established and maintained in accordance with the requirements of the General Guideline Manual issued by the Central Bank of Kuwait with the exception of the matters set out in the Appendix No. 2 and 3 attached to this report. on the materiality and nature of the observation, in our opinion, the true and fair presentation of the bank's financial statements is not affected

State of Kuwait
18 June 2019

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











Executive Report



Mr. Ali A. Khajah
Chief Executive Officer CEO

Executive Report

This Executive Report highlights the progress and results achieved during FY19 and provides an overview of achievements made by the main core business activities and some of its support departments. The report also explores the progress made to enhance the quality of assets portfolio.

The Executive Management resumed its efforts to achieve the objectives of the three-year plan (2018 - 2020), which was based in its essence on enhancing the bank's role in raising the contribution of the industrial sector to Kuwait's Gross Domestic Product (GDP), especially those that have the largest role in supporting industrial development. The goals of the three-year plan included three Long-term financial goals, one of which is to maintain asset quality and a low percentage of NPL's on alignment with the average for local banks below 2%

It also included five other long-term operational goals, perhaps the most important is the development of a comprehensive statistical and economic data base aimed at providing data about the industrial sector in the State of Kuwait to support the development of bank credit studies and market research for all industrial sectors, which is expected to enhance analytical capabilities and taking appropriate decisions.

Further, our core operating activities for 2019 witnessed a stable performance, especially with regard to profitability and the level of asset quality, The total operating income increased to KD 40.9 million or 11.48% over the previous year, and cost to revenue ratio improved as it decreased to 28.7 % compared to 29.8% for the previous year, while the equity of the bank's shareholders increased by 2.62% to reach KD 242.7 million from its level of KD 236.5 million at the end of the previous year.

With respect to quality of assets portfolio, the management of the Industrial Bank of Kuwait continued its efforts towards enhancing the quality of assets portfolio through formal periodic reports presented to the Provisions Committee / Management for review and valuation of customer's financial conditions, which are accompanied by taking the appropriate measures in



this regard in line with the strategy of the fiscal years 2018-2020. During 2019 bad debts written off recovered were KD 3.7 million compared to KD 3 million in 2018. Also NPL ratio declined by 194 percentage points to 0.35% over the end of the previous year.

Also, We are still committed to reach the highest level of our customer's satisfaction in all aspects of their banking dealings, through embracing of advanced revolutionary technological projects, including but not limited to, appropriate system for the Internet Banking and the implementation of the a Data Warehouse to improve our ability of rapid collection of customer data, analysis, classification, forecasting, monitoring and risk management in a timely and appropriate manner.

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 units 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 Department, and the financial reports for the year 2019, the Bank's management has found no significant defect in the Bank's Internal Control Systems.

May Almighty Allah bless all our efforts

Mr. Ali A. Khajah





Achievements of Main Operational Activities:

Industrial loans

During the year 2019, The Bank has completed studying 30 industrial loan requests, out of which one request was rejected and 29 request were approved to be granted long-term industrial loans, consisting of 27 expansion projects, one new project, and one cost overrun project. The total industrial loans commitments reached KD 42 million in year 2019, with a total projects' cost of about KD 53 million. The total industrial loans commitments represented 79% of total projects cost.

Loan Commitments During 2019

Sub-Sector	No. of Projects	Total project Cost	IBK Financing	Finance Share %
		(KD 000)		
Manufacture of paper and paper products	3	4,649	4,355	10.4
Manufacture of electrical equipment	1	1,691	1,015	2.4
Manufacture of chemicals and chemical products	3	6,090	6,090	14.6
Manufacture of rubber and plastic products	3	4,570	3,880	9.3
Manufacture of other non-metallic mineral products	1	620	460	1.1
Manufacture of basic metals	1	3,960	2,500	6.0
Manufacture of fabricated metal products, except machinery and equipment	10	8,102	5,801	13.9
Mining support service activities	1	10,000	8,000	19.2
Manufacture of food products	3	10,844	7,610	18.2
Printing and reproduction of record media	3	2,303	2,063	4.9
TOTAL	29	52,829	41,774	100.0

The table indicates that the mining support service activities ranked first, accounting for 19.2% of industrial loans commitments in year 2019, this is due to financing 1 industrial project for a financing amount of KD 8 million; while manufacture of food products came second representing 18.2% of industrial loans commitments in year 2019.



Industrial Loan Commitments during 2014-2019

Statement	2014	2015	2016	2017	2018	2019	Cumulative 1974-2019
Number of industrial Loans	19	26	28	27	17	29	1,118
Total Cost of Projects Financed (KD 000)	67,732	79,255	92,365	86,047	20,075	52,829	2,260,559
Total loan Commitments (KD 000)	49,286	57,251	63,879	56,038	12,283	41,774	1,287,372
Percent of Commitments-to-Total Project Costs (%)	73	72	69	65	61	79	57
Average Project Cost (KD 000)	3,565	3,048	3,299	3,187	1,181	1,822	2,022
Average IBK Financing/ project (KD 000)	2,594	2,202	2,281	2,075	723	1,441	1,152

Cumulative industrial loans commitments since the bank commenced lending operations in year 1974 until the end of year 2019 reached KD 1.287 billion, representing 56.9% of the aggregate project costs of KD 2.261 billion for 1,118 projects financed by IBK.

Corporate Finance

The Bank continued, during 2019, to offer a full range of commercial banking facilities to the industrial sector clients in Kuwait by providing working capital facility, project finance short/medium term loans and bridge financing. The banking facilities granted by the department are priced at market rates.

During 2019, the portfolio witnessed a slight increase of 0.18%, growing from KD 177.333 million as of end 2018 to KD 177.656 million at current year-end, mainly due to the completion and the closure of financed projects and other facilities. The decrease was offsetted by granting new facilities to new clients along with increasing facilities to existing clients. The portfolio also witnessed a decrease in the non-cash facilities of 9.33% compared to last year, decreasing from KD 93.437 million as of end 2018 to KD 84.717 million, as a result of closing several non-cash facilities due to the closure and completion of financed projects.

Continuing its policy of primary focus on the domestic market, the department's activity on the international side was conservative during 2019.



Direct Investment

The Bank 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, DIPD has been actively screening & exploring direct investment opportunities in the local industrial sector. As a result of the department local and international activities, the investment book of the bank including its subsidiary and associates has increased by 13.62% reaching KWD 127.63 Million in 2019 compared to 112.33 Million in 2018, while assets under management reached KWD 113.16 Million for the same period.

In addition, the positive performance of Private Equity Fund's investments and the local equities market led to exceptional performance in the investment portfolio. DIPD 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 pursued its business activities during the year 2019 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 banks overall profit.

The Bank 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 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 reached out to both domestic and international markets for funding the long-term foreign currency investments and to enhance its funding profile by seeking new funding sources.

Finance Portfolio Management

Al Senai for small enterprises portfolio

The objective of the portfolio is supporting and encouraging Kuwaitis' SME entrepreneurs into private businesses and eventually to achieve the Government of Kuwait's goal of restructuring the Kuwait Labor Force

In 2019, the portfolio financed total of 224 projects, with 22.65 million Kuwaiti dinar investment cost. While Al-Senai portfolio funding amount reached 18.53 million Kuwaiti dinar equivalent to 81.68% of total cost of project.



The following table shows the portfolio financing in 2019:

Category	No.	Investment	Portfolio Share	Percentage %
Manufacturing	43	5.02	4.30	23.05
Human health and social work activities	16	3.58	2.67	14.43
Administrative and support service activities	25	3.10	2.65	14.32
Accommodation and food service activities	32	2.91	2.40	12.99
Wholesale & Retail trade	42	1.96	1.71	9.21
Information and communication	17	1.60	1.29	6.97
Other service activities	18	1.73	1.26	6.84
Transportation and storage	14	1.27	1.02	5.50
Arts, Entertainment and recreation	8	1.01	0.88	4.74
Professional, scientific and technical activities	7	0.25	0.18	1.0
Education	2	0.22	0.17	0.95
Total	224	22.65	18.53	100

The Islamic Industrial Financing Portfolio

The objective of the portfolio is supporting the industrial development through providing medium to long term financing to industrial projects and services in compliance with Islamic Shari'a such as Murabaha, Istisna'a, and Ijara. During the year 2019, the portfolio financed (5) industrial projects, one of them was new project and 4 expansion projects. One in extraction of crude petroleum and natural gas, one in manufacture of food products, one in manufacture of rubber and plastics products and 2 projects in manufacture of paper and paper products with a total cost of KD 28 million, in which the portfolio's finance reached KD 22 million, representing 79% of the total projects cost.

Cumulative industrial financing commitments since the portfolio commenced its financing operations in year 2009 until the end of year 2019 reached KD 65 million, for 33 Industrial projects.



Cumulative Finance Commitments during 2009 – 2019

	During year 2019	Cumulative 2009 – 2019
Number of Projects	5	33
Total Projects Cost (KD 000s)	27,616	145,453
Portfolio Finance (KD 000s)	21,578	65,155

The Agricultural Financing Portfolio

The agricultural loans committee approved to grant 56 agricultural loans during 2019. The total project cost is estimated at KD 8.887 million where the agricultural portfolio's contribution was **KD 5.232 million** and this represent 59% of the cost of the projects distributed as below:

Sector	No	Total Project Cost (KD Million)	Agricultural Portfolio Financing
Planting	28	5.612	3.228
Short term	9	0.165	0.165
Integrated farm	5	0.726	0.380
Dairy	5	0.944	0.585
Fishes	4	0.139	0.075
Egg	2	0.914	0.550
Food security	1	0.111	0.05
Fish breeding	1	0.256	0.179
Poultry	1	0.02	0.02
Total	56	8.887	5.232

As is evident from the above table, the planting sector has the highest agricultural financing to the total financing around (62%). The dairy Farm comes second with (11%).

Efforts of Supporting Departments:

Research

During the year 2019, the department 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.

During this year, the project of "IBK Industrial Database" was completed and the process of upgrading and enhancing of database will continue regularly on yearly basis. Furthermore, a special studies on "Industrial Establishments of Kuwait & IBKs' Clients, and the "IBK Industrial Loans Commitments History 1974 - June 2019" were completed. Also, two periodical reports of "The Bi-Annual Economic Review" were presented.

The Department started preparing a sectoral study on "Ready mix Sector", Moreover two special studies are under preparation namely: "Products Diversification in Industry", and "The impact of raising the electricity prices on the working factories in Kuwait" in cooperation with Project Dept., in addition to 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.

Information Technology

In Year 2019, the bank business main focus was on initiating projects related to CBK, implementing critical technical upgrades and streamlining IT governance.

The new AML system project's objective is to implement a new application with enhanced functionalities that would meet CBK and regulatory requirements and required business functionalities. This project was initiated in August 2019 and is currently in the final stages of development (in particular integration) in readiness for UAT and Go Live which are planned for 1st quarter of 2020.

Kuwait National Payment System (KNPS) project's objective is to implement a suite of modern payment and settlement systems in Kuwait. Phase 1 includes implementation of Real Time Gross Settlement (RTGS), Automated Clearing House (ACH), Mobile Payment System (MPS), non-centralized Electronic Bill Presentment Payment (EBPP) System, Payment System Dashboard (PD) and Dispute Management System (DMS). This project was initiated by CBK in July 2019 and is currently in Integration Testing phase in preparation in Feb 2020.

Payment Safe (v.2.5), payment gateway software was upgraded in Nov 2019 and this includes enhanced security features.



Human Resources

In 2019, The Industrial Bank of Kuwait continued its interest in developing its human resources. It seeks to attract and recruit Kuwaiti youth from university qualifications holders in specializations, and provides them with specialized training programs in their skills, and encourage them to attend specialized seminars and conferences inside and outside the State of Kuwait. The number of Kuwaiti employees reached 134 employees at the end of the year, and the national workforce makes up 76% of the total employment in the bank.

The Bank participated in 66 specialized conferences, seminars and training programs to raise the level of career development of the staff which were, attended by 110 employees of the bank during 2019.

The bank also trained all the employees on combating money laundering in accordance with the guidelines of the Central Bank of Kuwait

The Industrial Bank of Kuwait is committed to a clear strategy towards its institutional mission in terms of developing and supporting the local industries by spreading awareness of the importance of the local product in the local and regional consumer market. This commitment is usually reflected in the various activities and events in which the Bank participates or co-sponsors in cooperation with several entities of a common mission and objective.

For the third year in a row, The Industrial Bank of Kuwait sponsored the Kuwait Manufacturers Show, which presented innovative and small ideas and projects that would be the first building blocks for successful future projects and beneficial patents. The bank has supported the industry in cooperation with the Federation of Kuwaiti Industries, through sponsoring the Initiative 4. In addition to the accompanying media campaign that aims to increase people's awareness towards the local industrial sector and give the true image of the national industry by highlighting the major factories and their production achievements, in addition to creating real faith in all segments of society about the importance of industry in achieving economic security and ensuring the future of the country.

Also to confirm the position of the bank as one of the most important development agencies that finance and support the industrial sector, the bank participated in various exhibitions supporting the industry, including the Financial Technology Exhibition, Dubai 2020 Exhibition, Sudair Gallery, and the Hala Development Exhibition organized by the Public Authority for Applied Education and Training. In addition to the national celebration on the occasion of the National Day and the Liberation Day held by the Bank in cooperation with the Kuwait International Bank and Ahli United Bank to meet the employees of the three banks collectively on the spirit of brotherhood and love.

As a matter of social responsibility, an audio feature has been added for people with special needs in the bank's official website, and containers have been provided for waste recycling, to enable the bank to be environmentally friendly.



Risk Management Disclosures

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.



Due to the responsibility of the Board of Directors 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 pro-active 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 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 2019 Kuwait Manufacturing business volumes and margins remained flat and the pressures in the system as well on the Bank's customers continued, though at lower levels in the previous years since the downturn, and discretionary provisions continued to be taken. On 2019, the interest rates in Kuwait were 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:

During 2019, 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 2019 with a 'Stable' outlook. Their summary rating is as follows:

Fitch Ratings Foreign Currency	
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 state a 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 42.71% as on December 31 2019.

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 Million (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.



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, 2019 (All figures in KD'000)

Total Tier - 1 Capital			236,713
Share holders> Equity			20,000
Reserves :			
	Legal reserves	37,170	
	Voluntary reserves	141,459	
	Fair value reserve	-	
	Retained Earnings	38,084	216,713
Total Tier - 2 Capital			6,707
General Provision as allowed			6,707
Total eligible capital after deductions			243,420



Capital Structure Disclosure - 31st December 2019 (Sheet 2)			
No	(All Values in KD <000)		
	Asset Categories	Net Credit Risk Exposure (After CRM)	After CRM Risk Weighted Assets
1	Cash Items	218	-
2	Claims on Sovereigns	101,231	-
3	Claims on International Orgns	-	-
4	Claims on PSE	-	-
5	Claims on MDB	-	-
6	Claims on Banks	157,305	31,461
7	Claims on Corporates	374,766	374,766
8	Claims on Securitized Assets	-	-
9	Credit Derivative Claims	-	-
10	Regulatory Retail	-	-
11	Past Due Exposures	1,291	934
12	Other Exposures	129,395	129,395
Total Exposure		764,206	536,556
Less General Provision			(18,741)
Total Credit Risk Exposure			517,815
Minimum Capital Requirements for Credit Risk			67,316
Capital Requirements for Market Risk			
Total Market Risk Weighted Exposure			602
Minimum Capital required ==>			78
Capital Requirements for Operational Risk			
Total Operational Risk Weighted Exposure			51,525
Minimum Capital required ==>			6,698
Total Risk Weighted Exposure			569,942



Total Min Capital requirement (Cr Risk + Mkt Risk + Op Risk)	74,092
Eligible Tier - 1 Capital	236,713
Eligible Tier - 2 Capital	6,707
Total Eligible Capital	243,420
Unused Capital	169,328
Capital Adequacy Ratio as per Basel - III	42.71%
Capital Adequacy Ratio based on Tier - 1 capital	41.53%
CET - 1 Capital Adequacy Ratio	41.53%

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, 2019 –Consolidated

#	Item	Leverage ratio Framework (000)
On-balance sheet exposures		
1.	On-balance sheet items	685,141
2.	(Amounts of assets deducted when calculating the T1 of the capital)	-
3.	Total On-balance sheet exposures	685,141
Derivative Exposures		
4.	Gross Exposure(including the amount of additional factor)	909
5.	(Adjustments)	(900)
6.	Total derivative exposures	9
Securities financing transaction exposures		
7.	SFT Assets	-
8.	Total securities financing transaction exposures	-
Off Balance sheet items		
9.	Commitments	134,517
10.	(Adjustments for conversion to credit equivalent amounts)	(107,614)
11.	Total Commitments	26,903
12.	Contingencies	84,717
13.	(Adjustments for conversion to credit equivalent amounts)	(46,869)
14.	Total Contingencies	37,848
15.	Total Off Balance sheet items	64,760
Capital & Total Exposures		
16.	Tier 1 Capital	236,713
17.	Total Exposures	749,901
Leverage Ratio		
18.	Basel III Leverage Ratio	31.57%



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 and most important sources of income and, the Bank dedicates considerable resources and energy to supervise & control it.

The credit risk that the Bank faces arises mainly from Industrial loans and banking facilities. 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):

(i) 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.



(ii) 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.

(iii) 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 successfully implemented the IFRS 9 system for provisioning approach. The Bank calculates expected credit losses based on CBK – IFRS9 methodology and the existing CBK methodology and applies the higher of the two.

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 31.12.2019		
Past Due Category	Outstanding amount (KD <000)	% of Total Past Dues
0 ≤ 30	13,513	88.31%
31 ≤ 90	72	0.47%
91 ≤ 180	553	3.61%
181 ≤ 364	575	3.76%
1 year (365) ≤ 3 year	2	0.01%
Above 3 year	586	3.83%
Total	15,302	100%

The ratio of Non-Performing Loans (NPL) to credit exposure stood at 0.35% as on 31.12.2019.



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 31.12.2019 (All figures in KD'000)

Disclosure on Total Credit Risk Exposure (Funded & Non - Funded) Asset Category-wise Report: 31.12.2019			
Asset Category	Funded Credit Risk Exposure	Non - Funded Risk Exposure	Total Credit Risk Exposure
Cash Items	218	-	218
Claims on Sovereigns	101,222	9	101,231
Claims on International organizations			
Claims on PSEs			
Claims on MDBs			
Claims on Banks	157,305	-	157,305
Claims on Corporates	325,223	54,286	379,509
Claims on Securitized Assets			
Credit Derivative claims			
Regulatory Retail			
Past Due Exposures	1,163	128	1,291
Other Assets	116,506	12,889	129,395
Total Credit Risk Exposure	701,637	67,312	768,949

Geographical Distribution of Exposures as on: 31 st December, 2019 (All figures in KD ‘000’)												
Geography	Total Loans and Advances				Loans & Advances- Industrial Loan-I				Loans & Advances- Commercial Facilities			
	December, 2018		December, 2019		December, 2018		December, 2019		December, 2018		December, 2019	
Kuwait	98.82%	265,313	100%	261,109	100%	177,698	100%	159,789	99.29%	443,012	100%	420,898
Others	1.18%	3,170	0%	0	0%	0	0%	0	0.71%	3,170	0%	0
Grand Total	100%	268,483	100%	261,109	100%	177,698	100%	159,789	100%	446,183	100%	420,898



Residual Maturity of the Loans and Advances Portfolio as on 31 st December, 2019 (Figures in '000)						
#	Total Portfolio		Industrial Loan at encouraged rates		Loans & Advances at Commercial rate	
	December, 2019	December, 2018	December, 2019	December, 2018	December, 2019	December, 2018
Up to 1 Month	54,342	41,059	28,854	18,316	25,487	22,743
1 to 3 Month	91,461	60,791	5,119	1,511	86,342	59,281
3 to 12 Month	69,028	90,154	20,434	20,973	48,594	69,181
Over 1 Year	169,295	186,257	144,343	155,949	24,952	30,308
Balance at Year end	384,126	378,261	198,750	196,749	185,377	181,513

Loans and Advances Portfolio by Sector as on 31 st December, 2019 (Outstanding Balances in KD'000)				
#	2019		2018	
	Outstanding Balance ('000)	As a % of Total Exposure	Outstanding Balance ('000)	As a % of Total Exposure
Chemicals	19,449	%4.39	20,475	%4.86
Food & Beverages	39,596	%8.94	22,446	%5.33
Metal Products & Engineering	158,607	%35.80	155,901	%37.04
Construction & Building Material	79,759	%18.00	80,659	%19.16
Furniture	5,034	%1.14	7,442	%1.77
Textile	489	%0.11	557	%0.13
Paper & Printing	11,697	%2.64	10,203	%2.42
Government	-	-	-	-
Oil and Gas	124,599	%28.13	119,599	%28.42
Agriculture and Fishing	1,567	%0.35	-	-
Others (Non-Financial)	-	-	-	-
T.Non-Financial Sectors	440,797	%99.50	417,283	%99.14
Financial Sectors	2,216	%0.50	3,616	%0.86
Total Sectors	443,013	%100	420,899	%100



Impaired Loans – Geographical Distribution as on 31 st December, 2019 (All figures in KD '000)				
#	2019	2018	2019	2018
	Outstanding loans		Provision provided for impaired loans	
Kuwait	1,164	11,335	586	2,473
Other GCC countries	-	-	-	-
Grand total	1,164	11,335	586	2,473
Impaired loans as a percentage of outstanding loans portfolio	0.35%	3.21%		
Coverage percentage			50.37%	21.81%

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. As a result, the bank is exposed to credit risk exposure to limited sector. Within that class, the Bank's portfolio is composed of customers spanning a wide variety of different activities that stretches as an industrial sector.



Credit Exposure after risk mitigation and credit conversion factor as on 31st December 2019

Credit Exposure after Credit Risk Mitigation (CRM) and credit conversion factor: 31.12.2019 (All figures in KD <000)			
Asset Categories	Credit Exposure before CRM	Credit Exposure after CRM	Credit Risk Weighted Assets
Cash Items	218	218	-
Claims on Sovereigns	101,231	101,231	-
Claims on International organizations		-	-
Claims on PSEs		-	-
Claims on MDBs		-	-
Claims on Banks	157,305	157,305	31,461
Claims on Corporates	379,509	374,766	374,766
Claims on Securitized Assets		-	-
Credit Derivative claims		-	-
Regulatory Retail		-	-
Past Due Exposures	1,291	1,291	934
Other Assets	129,395	129,395	129,395
Total Credit Risk Exposure	768,949	764,206	536,556

IFRS9 - EXPECTED CREDIT LOSSES - STAGEWISE - AS ON 31.12.2019		
Stages	Exposure at Default (EAD) (KD <000)	Expected Credit Loss (ECL) (in KD <000)
Stage - 1	556,900	1,613
Stage - 2	34,356	224
Stage - 3	32,656	14,167
TOTAL	623,912	16,004



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.

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, and 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 31.12.2019		
Type of Risk	Risk Weighted Exposure	Minimum Regulatory Capital Requirement
Interest Rate Risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	602	78
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 government of Kuwait granted a long-term (recurring) loan, the remainder of 300 million Kuwaiti dinars 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. 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, 2019	
Description	Total Weighted Value (KD <000)
Notional Exposure of Foreign Exchange Forward Contracts	909
Positive MTM	-
As on 31st December 2019, 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 – 31 st December, 2019 (Currency: KD)			
Currency (Kuwaiti Dinar) (All figures in KD <000)			
	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	230,358	145,556	27,053
Interest Bearing Liabilities	23,476	-	237,999
GAP	206,882	145,556	(210,946)
Cumulative GAP	206,882	352,437	141,491
Sensitivity to 1% interest rate change in the next 1 year			1,415
Interest Rate Sensitivity – 31 st December, 2019 (Foreign Currency: USD)			
(All figures in KD <000)			
	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	7,538	-	-
Interest Bearing Liabilities	44,597	15,293	-
GAP	(37,059)	(15,293)	-
Cumulative GAP	(37,059)	(52,353)	(52,353)
Sensitivity to 1% interest rate change (in KD terms, after conversion)			(524)
Overall Interest Rate Sensitivity (Combine Position) for 1% Interest Rate Change			891



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 2019. 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 31.12.2019 is as under:

(All values in KD '000)

Group	ID	Description	Values	Values After Flow Rates
HIGH QUALITY LIQUID ASSETS	1	Total High Quality Liquid Assets (Before Revisions)		103,569
CASH OUTFLOWS	2	Retail Deposits And SMES:	20,289	4,545
	3	> Stable Deposits	-	-
	4	> Less Stable Deposits	14,556	3,265
	5	Other Unsecured Deposits And Funds From Wholesale Funding Excluding Deposits Of Smes Customers:	47,654	34,481
	6	> Operational Deposits	-	-
	7	> Non-Operational (Other Unsecured Funding)	47,654	34,481
	8	Secured Funding	-	-
	9	Other Cash Outflows, Including:	138,433	33,088
	10	> From Derivatives	-	-
	11	> From Asset-Backed Securities And Commercial Papers (Assuming Non-Feasibility Of Re-Financing)	-	-
	12	> Committed Credit And Liquidity Drawbacks	138,433	33,088
	13	Other Prospective Future Funding Obligations	84,352	4,218
	14	Other Cash Contractual Outflows	5	5
	15	Total Cash Outflows		76,337



Group	ID	Description	Values	Values After Flow Rates
CASH INFLOWS	16	Secured Lending Transactions	-	-
	17	Cash Inflows From Performing Loans	341,980	170,990
	18	Other Cash Inflows	3,539	3,539
	19	Total Cash Inflow	345,519	174,529
LIQUIDITY COVERAGE RATIO	20	Total High Quality Liquid Assets (After Revisions)		103,569
	21	Net Cash Outflows		19,084
	22	Liquidity Coverage Ratio		546.59%



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: 31.12.2019 (All values in KD <000)						
Unweighted Values (before applying relevant factors)						
#	Item	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	243,420				243,420
3	* Other Capital Instruments	-	-	-	-	-
4	Retail Deposits and Deposits from small business customers :					
5	* Stable Deposits	-	-	-	-	-
6	* Less Stable Deposits	11,477	543	-	-	489
7	Wholesale funding:					
8	* Operational Deposits	-	-	-	-	-
9	* Other wholesale funding	13,473	48,217	9,092	345,598	354,055
10	Other Liabilities:					
11	* NSFR Derivative Liabilities	-	-	-	-	-
12	* All other liabilities not included in the above categories	62,869	15,951	-	-	-
13	Total ASF	331,238	64,711	9,092	345,598	597,964
Required Stable Funding (RSF):						
14	Total NSFR high - quality liquid assets (HQLA)	99,750	-	-	-	4,988
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-



Table 4: NSFR Common Disclosure Template for the period ending on: 31.12.2019 (All values in KD <000)
Unweighted Values (before applying relevant factors)

#	Item	No specified maturity	Less than 6 Months	More than 6 months & less than 1 year	Over 1 Year	Total weighted value
16	Performing Loans & Securities:					
17	* Performing Loans to financial institutions secured by Level 1 HQLA	7,981	112,500	-	-	11,250
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:	1,172	150,759	48,072	136,523	235,939
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 qualify as HQLA, including exchange - traded equities	-	-	-	-	-



Table 4: NSFR Common Disclosure Template for the period ending on: 31.12.2019 (All values in KD <000)						
Unweighted Values (before applying relevant factors)						
#	Item	No specified maturity	Less than 6 Months	More than 6 months & less than 1 year	Over 1 Year	Total weighted value
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	-	7,265	-	132,988	136,620
30	Off - Balance Sheet Items	-	84,640	-	-	4,232
31	Total RSF	108,903	355,164	48,072	269,511	393,029
32	NSFR (%)					152.14%

Note: Quantitative information relating to investments is available in the financial statements.

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 coverage.

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 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 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.

Information Security:

To improve the efficiency and service delivery to customers, adoption of newer technology in banking is increasing. This has brought with it Information security risks that are on the rise in Gulf Region. Information security risks such as Cyber – attacks using malwares, ransomware and internal threats may affect the banking operations and lead to monetary and reputational loss.

To mitigate these information security risks, the bank has established a dedicated Information Security Unit reporting to the Chief Risk Officer. The Information Security Unit monitors and assesses the Bank's Technology and Information related risks and ensures controls and adherence to Industry standards and Central Bank of Kuwait guidance to mitigate these risks related to Information Security.



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 requirements for operational risk for FY2019 is: KD 6.698 Millions.

Industrial Bank of Kuwait	
Disclosure on Operational Risk (Using Standardized Approach) as on 31st December, 2019	
Description	Value(KD <000)
Total Operational Risk Weighted Assets	51,525
Total Capital Charge	6,698
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 procedures, 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, 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 analyze suspicious transactions. The Bank has initiated the process of becoming FATCA & CRS.

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 2019 (in KD)

Category 1: 2 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
308,764	7,609	7,425

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
-	244,636	-

Category 2: 7 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
377,007	12,969	24,984

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
-	144,263	-

Category 3: 5 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
231,484	10,483	3,249

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
-	64,922	-







The Industrial Bank of Kuwait K.S.C.C

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 2019

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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 2019, 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 2019, 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 ("ISA"). 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 ("The 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 ISA 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 ISA, 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 («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, 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 2019 that might have had a material effect on the business of the Bank 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 2019 that might have had a material effect on the business of the Bank 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: 9 June 2020



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

STATE OF KUWAIT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KD'000	2018 KD'000
Assets			
Cash and cash equivalents	4	18,164	5,932
Treasury bills and bonds	5	99,607	158,099
Deposits with banks and other financial institutions		124,966	82,625
Investments at fair value through profit or loss	6	99,116	83,572
Investment carried at amortized cost	6	15,000	15,000
Loans and advances to customers	7	309,896	332,595
Investments in associates	8	6,591	6,688
Other assets		6,495	9,075
Property and equipment	9	5,306	5,819
Total assets		685,141	699,405
Liabilities			
Deposits from banks and other financial institutions		40,631	24,304
Deposits from customers		41,929	72,272
Other liabilities		14,270	20,376
Term loans	10a	45,598	45,929
Loan from the State of Kuwait	10b	300,000	300,000
Total liabilities		442,428	462,881
Equity			
Share capital	11	20,000	20,000
Treasury shares	11	-	(3,163)
Statutory reserve	11	37,170	36,271
Voluntary reserve	11	141,459	140,560
Retained earnings		44,084	42,856
Total equity		242,713	236,524
Total liabilities and equity		685,141	699,405

The accompanying notes 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 2019

	Note	2019 KD'000	2018 KD'000
Interest income		22,730	21,542
Interest expense		(5,144)	(4,292)
Net interest income		17,586	17,250
Fee and commission income		3,836	3,860
Foreign exchange gain		984	806
Dividend income		737	660
Realized gains on investments at fair value through profit or loss		9,321	7,278
Unrealized gains on investments at fair value through profit or loss		3,622	5,529
Share of results of associates	8	34	341
Gain on sale of a subsidiary	1	191	-
Recoveries from loans written-off	7	3,729	894
Other income		865	76
Total income		40,905	36,694
Staff costs	12	(8,360)	(8,021)
Depreciation	9	(611)	(547)
Other expenses	13	(2,514)	(1,870)
Provision for credit losses	7	(19,901)	(14,674)
Other provisions		(520)	(35)
Reversal of impairment on investments		-	73
Total expenses		(31,906)	(25,074)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Board of Directors' remuneration and Zakat		8,999	11,620
Contribution to KFAS		(100)	(107)
Board of Directors' remuneration	14	(120)	(276)
Zakat		(22)	(103)
Net profit for the year		8,757	11,134
Other comprehensive income for the year		-	-
Total comprehensive income for the year		8,757	11,134
Basic and diluted earnings per share (KD)	15	4.585	5.601

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





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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital KD'000	Treasury shares KD'000	Statutory reserve KD'000	Voluntary reserve KD'000	Retained earnings KD'000	Fair value reserve KD'000	Total KD'000
Balance as at 1 January 2018	20,000	-	35,108	139,397	34,054	6,061	234,620
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	5,994	(6,061)	(67)
Balance as at 1 January 2018 after IFRS 9 transition	20,000	-	35,108	139,397	40,048	-	234,553
Net profit and total comprehensive income for the year	-	-	-	-	11,134	-	11,134
Transfer to reserves (Note 11)	-	-	1,163	1,163	(2,326)	-	-
Purchased treasury shares (Note 11)	-	(3,163)	-	-	-	-	(3,163)
Dividends for 2017 (Note 11)	-	-	-	-	(6,000)	-	(6,000)
Balance at 31 December 2018	20,000	(3,163)	36,271	140,560	42,856	-	236,524
Balance at 1 January 2019	20,000	(3,163)	36,271	140,560	42,856	-	236,524
Net profit and total comprehensive income for the year	-	-	-	-	8,757	-	8,757
Transfer to reserves (Note 11)	-	-	899	899	(1,798)	-	-
Net change in treasury share	-	3,163	-	-	-	-	3,163
Dividends for 2018 (Note 11)	-	-	-	-	(5,731)	-	(5,731)
Balance at 31 December 2019	20,000	-	37,170	141,459	44,084	-	242,713

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

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

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KD'000	2018 KD'000
Cash flows from operating activities			
Net profit for the year		8,757	11,134
Adjustments for:			
Realized gains on investments at fair value through profit or loss		(9,321)	(7,278)
Share of results of associates	8	(34)	(341)
Depreciation	9	611	547
Foreign exchange gain		(984)	(806)
Unrealized gains on investments at fair value through profit or loss		(3,622)	(5,529)
Provision for credit losses	7	19,901	14,674
Other provisions		520	(35)
		15,828	12,366
Changes in:			
- Treasury bills and bonds		58,492	(11,803)
- Deposits with banks and other financial institutions		(42,341)	2,779
- Loans and advances to customers		2,798	(1,831)
- Other assets		2,580	338
- Deposits from banks and other financial institutions		16,327	9,848
- Deposits from customers		(30,343)	14,941
- Other liabilities		(5,921)	(1,830)
Net cash flows from operating activities		17,420	24,808
Cash flows from investing activities			
Additions to property and equipment	9	(98)	(46)
Purchase of investments at fair value through profit or loss		(19,551)	(28,261)
Proceeds from disposal of investments at fair value through profit or loss		16,896	12,744
Dividends received from associates	8	133	296
Net cash flows used in investing activities		(2,620)	(15,267)
Cash flows from financing activities			
Proceeds from term loans	10	-	3,556
Net movement of treasury shares	11	3,163	(3,163)
Dividends paid	11	(5,731)	(6,000)
Net cash flows used in financing activities		(2,568)	(5,607)
Net change in cash and cash equivalents		12,232	3,934
Cash and cash equivalents at 1 January		5,932	1,998
Cash and cash equivalents at 31 December	4	18,164	5,932

The accompanying notes 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 2019****1. Reporting entity**

The Industrial Bank of Kuwait K.S.C. (Closed) ("the Bank") is a closed shareholding company incorporated in the State of Kuwait in 1973 under the commercial registration number 20139. The Bank 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 new industries and support existing industries. For this purpose, it may undertake the operations described explicitly in its Articles of Association; and
- 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 2019 comprise the financial information of the Bank and its following subsidiaries (together referred to as "the Group" and individually "the Group entities").

Name of subsidiary	Country of incorporation	Principal activities	Percentage of ownership	
			2019	2018
Kuwait Industrial Projects Company K.S.C. (Closed)	State of Kuwait	Investments	99.6%	99.6%
Senaey Enterprises Limited	Cayman Islands	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%
Derwaza Company for Construction, Managing and Leasing Warehouses**	State of Kuwait	Leasing	100%	-

* On 28 February 2019, the Group sold its ownership interest in Warba Ready mix Concrete Company S.P.A. ("Warba") for a total consideration of KD 400,000, which resulted in gain of KD 191 thousand. Accordingly, the financial statements of Warba are included in the consolidated financial statements till the date of disposal i.e. 28 February 2019 as the Group's control over Warba ceased effective from this date.

** Derwaza Company for Construction, Managing and Leasing Warehouses is a newly formed sole proprietorship Company during the year and is a wholly owned subsidiary of the Group.



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

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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 2019 is 179 (2018: 177).

The consolidated financial statements were authorized for issue by the Board of Directors on 29 March 2020. 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 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait ("the CBK"). These regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by the CBK instructions, the consequent impact on related disclosures, and the adoption of all other requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

b) Basis of accounting

The consolidated financial statements are prepared under the historical cost convention, except for the measurement of investments at fair value through profit or loss which are carried at fair value.

c) Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is also the functional currency of the Bank. 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 judgments, 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 recognized prospectively.

Classification of financial assets

**THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED)****STATE OF KUWAIT****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset represent solely the payments of principal and interest.

Impairment of investments in associates

The Group determines the amount of impairment as the difference between the recoverable amount and the carrying value of investments in associates if there is an objective evidence that the investments in associates are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs to derive the recoverable amount.

Impairment of financial instruments

The Group estimates expected credit losses ("ECL") for all financial instruments carried at amortized cost. Significant judgments are required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Valuation of investments at fair value through profit or loss – Funds

The Group determines the valuation of investment in funds which are included in investments carried at fair value through profit or loss based on the net asset values of the underlying investments, adjusted with a discount for the lack of marketability. The management considers the currency, nature of underlying assets, tenor, geographic location in determining the discount for lack of marketability of these investment in funds.

e) Changes in accounting policies

The Group has adopted the following new standards and amendments to standards effective from 1 January 2019:

IFRS 16 – Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard 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.



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Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have a material impact for leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the lease liabilities and right of use assets are both recorded at the present value of the future lease payments. As such, no impact is recorded in the retained earnings as at 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Adoption of IFRS 16 has not resulted in a material impact on the consolidated financial statements as the Group does not have any material lease agreement as at the reporting date.

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 2020 with earlier application permitted, however, the Group has not early adopted any new or amended standards in preparing these consolidated financial statements.

The new standards and amendments are not expected to have a material impact on the consolidated financial statements of the Group in the period of initial application.

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 reassesses 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.

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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 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.

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 acquire, 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 interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Bank's share of components previously recognized in other comprehensive



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income to profit or loss or retained earnings as appropriate.

b) Financial instruments

Classification and measurement categories of financial assets and liabilities

The Group classifies 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 amortized cost; or
- Financial assets carried at fair value through other comprehensive income ("FVOCI"); or
- Financial assets carried at fair value through profit or loss ("FVTPL").

(1) Financial assets carried at amortized cost

A financial asset is measured at amortized 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; and
- (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 amortized cost are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by impairment losses. Income from financial instruments, foreign exchange gain and losses and impairments are recognized in the consolidated statement of profit or loss and other comprehensive income. Any gain or loss on de recognition is recognized 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

**THE INDUSTRIAL BANK OF KUWAIT K.S.C. (CLOSED)****STATE OF KUWAIT****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

'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 amortization of the premium / discount).

The most significant elements of interest 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 minimize 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 and other assets are classified as financial assets carried at amortised cost.

(2) Financial assets carried at FVOCI**(i) 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 whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses and impairment losses are recognized in consolidated statement of profit or loss and other comprehensive income. On derecognition, cumulative gains or



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losses previously recognized 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.

(ii) 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 recognized in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognized in other comprehensive income are transferred to retained earnings on derecognition and are not recognized in the consolidated statement of profit or loss. Dividend income on equity investments at FVOCI are recognized 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 recognized 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 FVTPL

The Group records and measures financial assets at fair value through profit or loss in the consolidated financial statements 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 amortized cost or at FVOCI and by doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair value, interest 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 receive the payment has been established.

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 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



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cumulative amortisation recognised in the consolidated statement of profit or loss and other comprehensive income, the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, 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 at 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 expected credit losses ("ECL") on 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 the Central Bank of Kuwait and Government of Kuwait are low risk and fully recoverable and hence, ECL is not recognized on these balances. Equity investments are not subject to ECL.

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

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 and its subsequent amendments.

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 estimates the risk of a default occurring on the financial instrument during its expected life. ECL is 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 financial instrument.



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SStage 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 recognized.

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 recognized.

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's methodology for ECL on such exposures remains largely unchanged.

Lifetime ECL is recorded on financial assets that are 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 facility is drawn. The expected cash shortfalls are discounted at an approximation to the expected effective interest rate on the facility.

The Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognised in the consolidated statement of profit or loss and other comprehensive income and the ECL. For this purpose, the Group estimates the ECL 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 interest rate relevant to the exposure.

Lifetime ECL is ECL that results 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 ECL and 12-month ECL 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 ECL. 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

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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 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.

Indicators 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 classified under Stage 3.

Objective evidence that a debt instrument is impaired includes whether any payment of principal or interest 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 assesses 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 ECL

ECL is probability weighted estimate of credit losses and is measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfalls represent the difference between cash flows due to the Group in accordance with the contract and the cash flows 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 credit facilities and 0.75% for non-investment grade credit facilities except for credit facilities that are rated by an external credit rating agency as investment grade and are granted to government entities and banks.

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 interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

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.

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, unless the Group has the legal right to call it earlier.

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 a 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 the ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

Renegotiated loans and advances

In the event of a default, the Group seeks to restructure facilities to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the facility to customers has been renegotiated or modified but not derecognized, any impairment is measured using the original effective

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interest rate method as calculated before the modification of terms. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in Stage 2.

Presentation of allowance for ECL in the consolidated 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 largely remains the same as previously under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has ceased 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 recorded directly in consolidated statement of profit or loss and other comprehensive income.

Provisions for credit losses in accordance with CBK instructions

The Group is required to calculate provisions for credit losses on loans and advances to customers in accordance with the instructions of the CBK on the classification of loans and advances to customers and calculation of provisions. Loans and advances to customers 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. Loans and advances to customers are classified as past due and impaired when the interest 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 loans and advances to customers 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
Special mention	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%



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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 loans and advances to customers (net of certain restricted categories of collateral), which are not subject to specific provisioning.

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) Investments in associates

Associates are those entities in which the Group has significant influence, which is the power to participate in the financial and operating policy decisions. 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, the 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 associates to the extent of the Group's interest.

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

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of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investments 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.

(e) Property and equipment

Property and equipment other than freehold land is stated at cost less accumulated depreciation and impairment losses. Freehold land is stated at cost less impairment losses.

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

(f) 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 at the reporting date. Resulting gains or losses on foreign 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.



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Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Fees which are considered as an integral part of the effective yield of a financial asset are recognised using the effective interest rate method. 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 loans and advances to customers is recognized either when cash is collected or on a cost-recovery basis as conditions warrant.

(h) Fees income

Fees income is recognized when the Group satisfies the performance obligation by transferring the promised service to the customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognized over the period of service. Fees income arising from providing a transaction service are recognized at a point in time on completion of the underlying transaction. Portfolio and other management advisory and service fee related to investment funds are recognized over the period in which the service is provided.

(i) Dividend income

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

(j) 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.

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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.

(k) Post-employment benefits

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.

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 contribution 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 and other comprehensive income in the year to which they relate.

(l) Provisions

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.

(m) 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.



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(n) 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.

(o) Zakat

Contribution to Zakat is calculated at 1% of the consolidated profit of the Bank after deducting its share of profit from the associates and subsidiaries that are shareholding companies in accordance with Law No. 46 of 2006 and Ministerial resolution No. 58 of 2007 and its Executive Regulations.

(p) 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 classified under equity.

(4) Cash and cash equivalents

	2019	2018
	KD'000	KD'000
Balances with the Central Bank of Kuwait	940	1,212
Cash in hand and current accounts	2,224	1,271
Deposits with banks and financial institutions maturing within 7 days	15,000	3,449
	18,164	5,932

(5) Treasury bills and bonds

	2019	2018
	KD'000	KD'000
Central Bank of Kuwait bonds	23,357	23,372
Treasury bills	76,250	134,727
	99,607	158,099

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

As per the Central Bank of Kuwait circular dated 25 December 2018, no expected credit losses have been recorded against the bonds, treasury bills, and public debt instruments issued by the Central Bank of Kuwait and the State of Kuwait.

(6) Investments**Investments at fair value through profit or loss**

	2019	2018
	KD'000	KD'000
Quoted equities	17,449	9,863
Unquoted equities	1,283	2,280
Unquoted corporate bond	-	845
Funds	80,384	70,584
	<u>99,116</u>	<u>83,572</u>

The disclosure of fair value measurement and the levels of fair value hierarchy relating to the investments carried at fair value through profit or loss is set out in note 20.

Investment carried at amortized cost

The Group has an investment in unquoted corporate unsecured bond of KD 15,000 thousand (2018: KD 15,000 thousand). The bond carries interest rate of 4.125% and matures in December 2021.

(7) Loans and advances to customers

	2019	2018
	KD'000	KD'000
Industrial loans at preferential lending rates	158,274	173,478
Loans and advances at commercial lending rates	177,656	176,632
	<u>335,930</u>	<u>350,110</u>
Less: provision for credit losses	<u>(26,034)</u>	<u>(17,515)</u>
	<u>309,896</u>	<u>332,595</u>



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The provision for credit losses are as follows:

2019	Industrial loans			Commercial loans			Total
	Specific	General	Total	Specific	General	Total	
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2019	-	2,818	2,818	120	14,577	14,697	17,515
Charge for the year	7,531	3,023	10,554	4,319	5,028	9,347	19,901
Amounts written-off	(7,531)	-	(7,531)	(3,851)	-	(3,851)	(11,382)
Balance at 31 December 2019	-	5,841	5,841	588	19,605	20,193	26,034

2018	Industrial loans			Commercial loans			Total
	Specific	General	Total	Specific	General	Total	
	KD '000	KD '000	KD '000	KD '000	KD '000	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
Amounts written-off	(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

In accordance with the instructions of the Central Bank of Kuwait, a minimum general provision of 1% on cash facilities and 0.5% on non-cash facilities, net of certain restricted categories of collateral to which these instructions are applicable and not subject to specific provision is recognized. The general provision presented above are relating to cash facilities which includes an amount of KD 22,106 thousand (2018: KD 14,007 thousand) that is over and above the minimum general provision requirements of the Central Bank of Kuwait and has been recognized in accordance with instructions from the Central Bank of Kuwait.

The available provision balance relating to non-cash facilities of KD 1,598 thousand (2018: KD 2,248 thousand) is included in other liabilities.

The expected credit losses on loans and advances to customers determined under IFRS 9 according to the guidelines of the Central Bank of Kuwait amounted to KD 16,003 thousand as at 31 December 2019 (2018: KD 7,553 thousand).

During the year, the Bank has made recoveries amounting to KD 3,729 thousand (2018: KD 894 thousand) pertaining to certain loans and advances that were fully provided for and written-off in prior years.

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					Carrying value	
	Country of	Principal	Ownership		2019	2018
	incorporation	activities	2019	2018	KD'000	KD'000
Al Rawdatain Water Bottling Co. K.S.C.C.	State of Kuwait	Production and bottling of mineral water	30%	30%	3,715	3,811
Qaroh P.E.T. Products Co. K.S.C.C.	State of Kuwait	Specialized industrial products	30%	30%	1,411	1,483
Technology Industrial Gases Production Company K.S.C.C.	State of Kuwait	Production of industrial gases	20%	20%	1,465	1,394
					6,591	6,688

As at 31 December 2019, the aggregate assets, liabilities, income and expenses of associates, without adjustment for the ownership interest held by the Group, was KD 32,044 thousand, KD 9,180 thousand, KD 1,520 thousand and KD 1,277 thousand, respectively (2018: assets, liabilities, income and expenses amounting KD 31,258 thousand, KD 8,190 thousand, KD 2,143 thousand and KD 1,162 thousand, respectively).

The Group's share of results of associates and dividend distributed by associates to the Group during the year ended 31 December 2019 was KD 34 thousand and KD 133 thousand respectively (2018: KD 341 thousand and KD 296 thousand, respectively).



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(9) Property and equipment

	Land	Buildings	Others	Total
	KD'000	KD'000	KD'000	KD'000
Cost:				
Balance at 1 January 2018	3,672	9,232	5,355	18,259
Additions	-	-	46	46
Balance at 31 December 2018	3,672	9,232	5,401	18,305
Additions	-	-	98	98
Balance at 31 December 2019	3,672	9,232	5,499	18,403
Accumulated depreciation:				
Balance at 1 January 2018	-	8,975	2,964	11,939
Charge for the year	-	22	525	547
Balance at 31 December 2018	-	8,997	3,489	12,486
Charge for the year	-	22	589	611
Balance at 31 December 2019	-	9,019	4,078	13,097
Carrying amounts:				
At 31 December 2019	3,672	213	1,421	5,306
At 31 December 2018	3,672	235	1,912	5,819

(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 at 31 December 2019, the loan carries an effective interest rate of 3.19% and the outstanding balance is equivalent to KD 15,153 thousand (2018: KD 15,165 thousand).

In 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 at 31 December 2019, the balance is KD 15,292 thousand (2018: KD 15,599 thousand).

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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 at 31 December 2019, the loan carries effective interest rate of 3.85% and is due to mature in October 2021. As at 31 December 2019, the outstanding balance is equivalent to KD 15,153 thousand. (2018: KD 15,165 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 and 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 (which is not granted for industrial exposures) is subject to interest rate of 3 months Kuwait inter-bank offering rate.

(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 (2018: 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 before KFAS, Board of Directors' remuneration and zakat has been transferred to a statutory reserve. Distribution from statutory reserve is limited to enable the payment of dividend equivalent to 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of such 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 899 thousand (10% from the profit) to voluntary reserve for the year ended 31 December 2019 (2018: KD 1,163 thousand).
- d) For the year ended 31 December 2019, the Board of Directors have proposed a cash dividend of 30% equivalent to KD 3 per share (2018: proposed cash dividend of 30% equivalent to KD 3 per share). The proposal is subject to the approval of the shareholders at their Annual General Assembly meeting.





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- e) In the prior year, the Bank acquired its own shares in a public auction, as part of a loan settlement with a shareholder. The shares were pledged as collateral against the loan. The Bank purchased 89 thousand treasury shares amounting to KD 3,163 thousand as part of this loan settlement. Subsequently, a court verdict was issued revoking the shares mortgage.

	2019	2018
Number of shares owned	89,686	89,686
Percentage to issued shares	4.45%	4.45%
Cost (KD)	3,163,000	3,163,000

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

The Annual General Assembly meeting of the shareholders for the year ended 31 December 2018 was held on 9 July 2019 and approved the consolidated financial statements for the year ended 31 December 2018. The general assembly also approved dividends of KD 3 per share amounting to KD 5,731 thousand for the year ended 31 December 2018 (31 December 2017: KD 3 per share amounting to KD 6,000 thousand).

(12) Staff costs

	2019	2018
	KD'000	KD'000
Salaries and other short-term benefits	4,987	5,087
Post-employment benefits	1,268	1,222
Other benefits	2,105	1,712
	8,360	8,021

(13) Other expenses

	2019	2018
	KD'000	KD'000
Administrative expenses	1,228	906
Operating expenses	1,057	752
Other expenses	229	212
	2,514	1,870



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(14) Board of Directors' remuneration

The Board of Directors' proposed an amount of KD 120 thousand towards remuneration of the Board of Directors and respective committees for the year ended 31 December 2019 (2018: KD 276 thousand). The proposed remuneration of the Board of Directors is subject to approval of shareholders in their Annual General Assembly meeting.

(15) Basic and diluted earnings per share

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 therefore, the basic and diluted earnings per share are identical.

	2019	2018
Net profit for the year (KD'000)	8,757	11,134
Weighted average number of outstanding shares during the year shares ('000)	1,910	1,988
Basic and diluted earnings per share (KD)	4.585	5.601

(16) Related party disclosures

Related parties comprise major shareholders, Board of Directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members. Balances and transactions with related parties arise from commercial transactions in the ordinary course of business on terms approved by the management.

As at 31 December 2019, the Bank has 10 members on the Board of Directors (2018: 9 Directors) and 15 executive officers (2018: 18 executive officers).

The balances and transactions with related parties as at reporting date are summarized below.

Consolidated statement of financial position as at December 31, 2019		
	2019	2018
	KD'000	KD'000
Balances with shareholders		
Cash and cash equivalents	940	1,211
Treasury bills and bonds	99,607	158,099
Other assets	674	1,031
Deposit from customers	16,668	14,572
Other liabilities	192	159
Loan from the State of Kuwait	300,000	300,000
Balances with other related parties		
Other assets	680	380

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Consolidated statement of financial position as at December 31, 2019		
	2019	2018
	KD'000	KD'000
Deposits from customers	4,575	4,035
Other liabilities	-	159
Commitments and contingent liabilities	2,575	3,205
Balances with associates		
Loans and advances to customers	6,522	5,175
Other assets	-	-
Deposits from customers	-	-
Other liabilities	2	3
Commitments and contingent liabilities	499	304
Consolidated statement of profit or loss and other comprehensive income		
Other expenses	35	36

Details of compensation to key management personnel comprise the following:

	2019	2018
	KD'000	KD'000
Salaries and other short-term benefits	294	475
Post-employment benefits	50	78

Key management personnel of the Group comprise the key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank.

(17) Commitments and contingent liabilities

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments don't necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

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	2019	2018
	KD'000	KD'000
Acceptances	3,271	4,842
Letters of credit	11,765	16,645
Letters of guarantee	69,681	71,950
	84,717	93,437

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.

b) Other contingent liability

As at 31 December 2019, the Bank has a contingent liability related to a subsidiary amounting to KD 467 thousand (2018: KD 467 thousand).

c) Other commitments

At 31 December 2019, the Group has commitments in respect of uncalled capital contribution relating to investments carries at fair value through profit or loss amounting to KD 64,447 thousand (2018: KD 64,247 thousand).

(18) 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 296,600 thousand (2018: KD 359,771 thousand). The bank earned fees income from managing the fiduciary assets of KD 2,421 thousand during the year ended 31 December 2019 (2018: KD 2,301 thousand).

(19) Financial risk management

The Group has exposure to the following risks from financial instruments, as part of its routine operations:



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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's Board Audit Committee.

19.1 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.

Assessment of expected credit losses

Credit limits are established for all customers after a careful assessment of their credit worthiness. Standing procedures require that all credit proposals be subjected to detailed screening under the risk management framework of the Bank including the submission to the appropriate credit committee. Whenever necessary, all loans and advances to customers are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities,



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the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

Any credit impaired or stressed facility that has been restructured would also be considered as in default.

The Group considers a variety of indicators that may indicate unlikelihood to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- Breaches of covenants;
- Borrower having past due liabilities to public creditors or employees; or
- Borrower is deceased.

The Group considers a financial asset as 'cured' (i.e. no longer be in default) and therefore, reclassified out of Stage 3 when it no longer meets any of the default criteria. With respect to the restructured facilities which are classified in Stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Group for consideration for classifying the facility in Stage 2.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or life time ECL, the Group assesses as there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds.

The Group considers a financial instrument with an external rating of "investment grade" as at the reporting date to have a low credit risk. In addition to the above quantitative criteria, the Group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

Measurement of ECL

ECL are probability-weighted estimates of credit losses and are measured at the present



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value of all cash shortfall discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

The Group calculates ECL on credit facilities classified in Stage 3 at 100% of the defaulted exposure, net of value of eligible collaterals after applying applicable haircuts.

The Group in estimating ECL for credit facilities has taken into consideration the following key parameters based on inputs from CBK:

- Floor for estimating PDs for specific portfolios;
- Eligible collateral with haircuts for determining LGD;
- Deemed maturity for exposures in Stage 2; and
- Credit conversion factor on utilized and un-utilized portions for cash and non-cash facilities.

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward-looking information into the ECL model. Key economic variables include, but not limited to, Gross Domestic Product, Equity price index, Oil prices and Government expenditure. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL.

Maximum exposure to credit risk

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 as at reporting date. Information on credit risk relating to commitments and contingent liabilities is provided in note 17.

The industry concentration of credit risk pertaining to loans and advances to customers relating to manufacturing and industrial sector is 54% (2018: 52%) and the Government of the State of Kuwait is nil (2018: nil). Geographical concentration of credit risk is reflected in Note 19.1.1.

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,



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before the effect of mitigation through the use of master netting and the related collateral agreements.

	Maximum credit exposure	
	2019	2018
	KD'000	KD'000
Credit risk exposures relating to financial assets on consolidated statement of financial position:		
Cash and cash equivalents	17,224	4,720
Treasury bills and bonds	99,607	158,099
Deposits with banks and other financial institutions	124,966	82,625
Investments at fair value through profit or loss	-	845
Investment carried at amortized cost	15,000	15,000
Loans and advances to customers	315,938	332,595
Other assets	6,495	9,075
Total	573,188	602,959
Credit risk exposures relating to items off consolidated statement of financial position:		
Acceptances	3,271	4,842
Letters of credit	11,765	16,645
Letters of guarantees	69,681	71,950
Total	84,717	93,437
Total credit risk exposure	657,905	696,396

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 to customers outstanding as a percentage of total loans and advances to customers is 46.44% as at 31 December 2019 (2018: 47.87%).

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



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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, shares or listed securities on the stock exchange and commercial papers.

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.

2019	Neither past due nor impaired		
	High grade	Standard grade	Total
	KD'000	KD'000	KD'000
Loans and advances to customers			
- Industrial loans	31,005	122,440	153,445
- Commercial loans	49,413	106,380	155,793
Total	80,418	228,820	309,238

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

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

2019	Past due up to 30 days	Past due from 31 to 60 days	Past due from 61 to 90 days	Past due for more than 90 days	Total
	KD'000	KD'000	KD'000	KD'000	KD'000

Loans and advances to customers

- Industrial loans	3,880	9	365	575	4,829
- Commercial loans	21,024	63	188	-	21,275
Total	24,904	72	553	575	26,104
Fair value of collaterals	29,039	1,416	780	575	31,810

2018	Past due up to 30 days	Past due from 31 to 60 days	Past due from 61 to 90 days	Past due for 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	7,712
- Commercial loans	750	-	-	4,400	5,150
Total	2,017	-	4	10,841	12,862
Fair value of collaterals	18,432	-	362	19,062	37,856



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Past due and individually impaired loans are as follows:

2019	Gross exposure	Impairment	Fair value of collateral
	KD'000	KD'000	KD'000

Loans and advances to customers

- Commercial loans	588	588	7,620
Total	588	588	7,620

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

Loans and advances to customers

- Commercial loans	187	120	-
Total	187	120	-

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19.2 Geographical concentration of assets, liabilities and contingent liabilities

2019	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	16,687	249	484	740	4	-	18,164
Treasury bills and bonds	99,607	-	-	-	-	-	99,607
Deposits with banks and other financial institutions	124,966	-	-	-	-	-	124,966
Investments at fair value through profit or loss	19,154	20,839	15,417	29,012	12,364	2,330	99,116
Investment carried at amortized cost	15,000	-	-	-	-	-	15,000
Loans and advances to customers	309,896	-	-	-	-	-	309,896
Investments in associates	6,591	-	-	-	-	-	6,591
Other assets	6,495	-	-	-	-	-	6,495
Property and equipment	5,306	-	-	-	-	-	5,306
Total assets	603,702	21,088	15,901	29,752	12,368	2,330	685,141
Liabilities							
Deposits from banks and other financial institutions	38,082	-	2,549	-	-	-	40,631
Deposits from customers	41,929	-	-	-	-	-	41,929
Other liabilities	14,270	-	-	-	-	-	14,270
Term loans	-	30,305	15,293	-	-	-	45,598
Loan from the State of Kuwait	300,000	-	-	-	-	-	300,000
Total liabilities	394,281	30,305	17,842	-	-	-	442,428
Commitments and contingent liabilities	77,008	5,318	700	3	1,688	-	84,717

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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
Investment carried at amortized cost	15,000	-	-	-	-	-	15,000
Loans and advances to customers	332,595	-	-	-	-	-	332,595
Investments in associates	6,688	-	-	-	-	-	6,688
Other assets	9,075	-	-	-	-	-	9,075
Property and equipment	5,819	-	-	-	-	-	5,819
Total assets	622,747	15,564	16,758	31,232	10,552	2,552	699,405
Liabilities							
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
Total liabilities	414,179	30,330	18,372	-	-	-	462,881
Commitments and contingent liabilities	82,592	4,994	3,726	-	2,125	-	93,437

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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 reporting date, 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 2019 is 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	38,765	1,866	-	-	-	40,631
Deposits from customers	41,668	308	-	-	-	41,976
Other liabilities	-	-	14,270	-	-	14,270
Term loans	-	-	15,475	31,547	-	47,022
Loan from the State of Kuwait	-	-	-	-	319,215	319,215
Total undiscounted financial liabilities	80,433	2,174	29,745	31,547	319,215	463,114



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The maturity profile as at 31 December 2018 is 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	24,304	-	-	-	-	24,304
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	86,775	357	30,086	48,685	318,318	484,221

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

2019	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

Commitments and Contingent liabilities	7,515	13,498	32,653	30,813	238	84,717
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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

Commitments and Contingent liabilities	9,860	17,079	23,889	42,408	201	93,437
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The maturity profile of the assets and liabilities as at the reporting date based on contractual repayment arrangements is as follows:

2019	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	18,164	-	-	18,164
Treasury bills and bonds	48,357	46,250	5,000	99,607
Deposits with banks and other financial institutions	124,966	-	-	124,966
Investments at fair value through profit or loss	-	-	99,116	99,116
Investment carried at amortized cost	-	15,000	-	15,000
Loans and advances to customers	194,456	87,433	28,007	309,896
Investments in associates	-	-	6,591	6,591



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2019	Less than one year	From one year to five years	Over five years	Total
	KD'000	KD'000	KD'000	KD'000
Other assets	4,290	-	2,205	6,495
Property and equipment	-	-	5,306	5,306
Total assets	390,233	148,683	146,225	685,141
Liabilities and equity				
Deposits from banks and financial institutions	40,631	-	-	40,631
Deposits from customers	41,929	-	-	41,929
Other liabilities	14,270	-	-	14,270
Term loans	15,153	30,445	-	45,598
Loan from the State of Kuwait	-	-	300,000	300,000
Equity	-	-	242,713	242,713
Total liabilities and equity	111,983	30,445	542,713	685,141
Net liquidity position	278,250	118,238	(396,488)	-

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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
Investment carried at amortized cost	-	15,000	-	15,000
Loans and advances to customers	169,738	94,106	68,751	332,595
Investments in associates	-	-	6,688	6,688
Other assets	3,262	-	5,813	9,075
Property 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
Net liquidity position	226,454	126,772	(353,226)	-



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19.4 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 the Group's 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 Group's treasury and investment functions. The Group's market risk objectives of risk management are to:

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

19.5 Foreign currency risk

Foreign currency risk is the risk that the value of the financial instruments 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:

2019			
Currency	Change in currency rate in %	Effect on profit KD '000	Effect on other comprehensive income KD '000
USD	±1 %	182	-
Euro	±1 %	31	-

2018			
Currency	Change in currency rate in %	Effect on profit KD '000	Effect on other comprehensive income KD '000
USD	±1 %	113	-
Euro	±1 %	18	-



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

	2019	2018
	Long/(short)	Long/(short)
	KD '000	KD '000
US Dollars	18,263	11,312
Euro	(3,106)	(1,831)

19.6 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 in the 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 of maturity and floating rate instruments according to the residual term to the next re-pricing date.



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2019	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	KD '000	
Assets						
Cash and cash equivalents	17,946	-	-	218	18,164	0.000% - 3.000%
Treasury bills and bonds	99,607	-	-	-	99,607	1.250% - 4.000%
Deposits with banks and other financial institutions	124,966	-	-	-	124,966	0.250% - 3.313%
Investments at fair value through profit or loss	-	-	-	99,116	99,116	-
Investment carried at amortized cost	-	15,000	-	-	15,000	4.125 % - 4.125%
Loans and advances to customers	189,250	83,827	36,819	-	309,896	3.500% - 6.750%
Investments in associates	-	-	-	6,591	6,591	-
Other assets	-	-	-	6,495	6,495	-
Property and equipment	-	-	-	5,306	5,306	-
Total assets	431,769	98,827	36,819	117,726	685,141	
Liabilities						
Deposits from banks and financial institutions	40,631	-	-	-	40,631	0.010% - 3.050%
Deposits from customers	41,929	-	-	-	41,929	0.156 - 0.600%
Other liabilities	-	-	-	14,270	14,270	-
Term loans	30,446	15,152	-	-	45,598	0.600% - 2.642%
Loan from the State of Kuwait	237,999	62,001	-	-	300,000	0.500% - 2.875%
Total liabilities	351,005	77,153	-	14,270	442,428	
Net gap	80,764	21,674	36,819	103,456		
Cumulative interest rate sensitivity gap	80,764	102,438	139,257	242,713		



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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	-
Investment carried at amortized cost	-	15,000	-	-	15,000	4.125 %
Loans and advances to customers	183,370	91,670	75,071	(17,516)	332,595	3.500% - 4.511%
Investments in associates	-	-	-	6,688	6,688	-
Other assets	-	-	-	9,075	9,075	-
Property and equipment	-	-	-	5,819	5,819	-
Total assets	353,589	170,265	88,571	86,980	699,405	
Liabilities						
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%
Total liabilities	180,106	15,165	247,234	20,376	699,405	
Net gap	173,483	155,100	(158,663)	66,604		
Cumulative interest rate sensitivity gap	173,483	328,583	169,920	236,524		

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The sensitivity to 1% rate change on overall net interest long position amounts to KD 1,032 thousand (2018: KD 1,699 thousand).

19.7 Equity price risk

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

The effect on the consolidated statement of profit or loss and other comprehensive income as a result of a change in the fair value of equity instruments held at fair value through profit or loss due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2019	2018
	KD '000	KD '000

Change in the stock market index:

Effect on investment portfolios on 10% change in index	1,745 ±	986 ±
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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 and underlying assets whose performance cannot necessarily be measured with relation to movement in any specific equity index.

19.8 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 training and assessment processes, including the role of internal audit.

20. Fair value measurement

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

Fair value hierarchy

- The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:
- Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities;

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

The following shows an analysis of investments at fair value through profit or loss by levels of fair value hierarchy:

2019	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Investments at fair value through profit or loss				
Quoted equities	17,449	-	-	17,449
Unquoted equities	-	-	1,283	1,283
Funds	-	-	80,384	80,384
Total	17,449	-	81,667	99,116

2018	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Investments at fair value through profit or loss				
Quoted equities	9,863	-	-	9,863
Unquoted equities	-	-	2,280	2,280
Unquoted corporate bonds	-	845	-	845
Funds	-	-	70,584	70,584
Total	9,863	845	72,864	83,572

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 the discount rates used.



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31 December 2019

	At 1 January 2019	Transfer to level 1	Additions / (redemption)	Change in fair value	At 31 December 2019
	KD '000	KD '000	KD '000	KD '000	KD '000

Investments at fair
value through
profit or loss

Funds	70,584	-	6,612	3,188	80,384
Unquoted equities	2,280	(219)	-	(778)	1,283
	72,864	(219)	6,612	2,410	81,667

31 December 2018

	At 1 January 2018	Transfer to level 1	Additions / (redemption)	Change in fair value	At 31 December 2018
	KD '000	KD '000	KD '000	KD '000	KD '000

Investments at
fair value through
profit or loss

Funds	57,150	-	15,517	(2,083)	70,584
Unquoted equities	1,394	-	-	886	2,280
	58,544	-	15,517	(1,197)	72,864

For the assets classified under Level 3, the fair value is estimated using appropriate valuation techniques such as recent arm's length market transactions, reference to current fair value of similar assets and other valuation techniques. Significant unobservable inputs used by the management in these valuation techniques represents the discount for lack of marketability ranging from 5% to 10% which is derived based on tenor, nature underlying assets, geographic location pertaining to these investments.

The Group has also performed a sensitivity analysis by varying the key inputs used in the valuation techniques by 5% which did not result in a material impact on the consolidated financial statements.



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Fair values of remaining assets and liabilities carried at amortized cost are not materially different from their fair values as at the reporting date, given most of these are of short-term maturities or are repriced immediately based on market movement in interest rates.

21. 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 Central Bank of Kuwait.

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

	2019	2018
	KD'000	KD'000
Risk weighted assets	569,941	574,050
Total minimum capital required	74,092	74,627
Common Equity Tier 1 (CET1) Capital	236,713	230,522
Tier 2 Capital	6,707	6,709
	<u>243,420</u>	<u>237,231</u>
CET 1 capital adequacy ratio	41.53%	40.16%
Tier 1 capital adequacy ratio	41.53%	40.16%
Total capital adequacy ratio	42.71%	41.33%



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The Group's financial leverage ratio as at 31 December 2019, is calculated in accordance with the Central Bank of Kuwait circular number 2/BS/342/2014 dated 21 October 2014 and is shown below:

	2019	2018
	KD'000	KD'000
Tier 1 Capital	239,296	230,522
Total exposure	751,856	772,734
Leverage ratio	31.57%	29.83%

22. Subsequent events

The presence of the novel Coronavirus (Covid-19) was confirmed in early 2020 and has spread to various countries, causing disruption in business and economic activity worldwide. The Group has considered this outbreak to be an event after the reporting date of non-adjusting nature. The management has been closely monitoring the impact of the developments on Group's business and this will be continuously monitored as the situation evolves. The scale and duration of these developments remain uncertain at this stage but could negatively impact the Group's financial performance, cash flows and financial position. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorization of these consolidated financial statements.



Bank Directory



The Industrial Bank of Kuwait K.S.C.C



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

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

Manager, Operation Department
Mrs. Shawqiya M. Towfiqi
22337003

Head, Financial Control Unit
Mr. Emad J. Salman
22337078

Manager, Accounts Department
Mrs. Loulwa M. Al-Attal
22337355

Manager, Information Technology
Department
Mr. Basel S. Al-Bader
22337636

Head, Compliance Unit
Mr. Youssef Homairy
22337015

Disclosure Unit
22337015

Head, Anti Money Laundering Unit
Mrs. Hanadi Jumah
22337505

Deputy Chief Executive Officer Finance &
Investment
Mr. Jawad H. Al-Qallaf
22337888

Manager, Direct Investment and Promotion
Department
Mr. Jamal B. Al-Rumaih
22337800

Manager, Corporate Finance Department
Mr. Abdulaziz M. Qabazard
22337550

Manager, Credit Administration
Department
Mr. Mohammad Al-Sayegh
22337550

Manager, Treasury and Securities
Department
Mr. Nawaf Y. Al-Munaifi
22337070

Chief Risk Officer Risk Management
Department
Mr. Bhaskar Majumdar
22337420

Manager, Internal Audit Department
Mr. Abdulkarim M. Ibrahim
22337345

Board Secretary
Mr. Khalid M. Al-Humoud
22337575

Manager, Follow-Up Department
Mr. Fadhel A. Mahussain
22337100

Manager, Projects Department
Mrs. Iman N. Al-Salamah
22337408

Manager, Al-Senai Portfolio for Small
Enterprises
22337188

Manager, Agriculture Finance Portfolio
Mr. Osama M. Al-Othman
22337700

Manager, Industrial Financing Portfolio
according to Islamic Sharia
Mrs. Iman N. Al-Salamah
22337408

Manager, Research Department
22337300

Legal Advisor, Legal Department
Mr. Ashraf Salem
22337203

Manager, Administration Department
Mr. Bassam S. Buresli
22337901





P.O. Box 3146, Safat 13032, Kuwait

Telephone: (+965) 22337000 - 18444446

Fax (+965) 22462057 - Telex: 22469 - 22582

Website: www.ibkuwt.com

Email: ibk@ibkuwt.com

