



Annual Report 2021





In the name of

Allah

The most gracious

The most merciful





H.H. Shiekh/ Nawaf AlAhmad AlJaber AlSabah

The Amir of the State of Kuwait





H.H. Shiekh/ Meshal AlAhmad AlJaber AlSabah

Crown Prince





H.H. Shiekh/ Sabah Alkhalid Alhamad AlSabah

Prime Minister



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About the bank



Objectives of the Bank

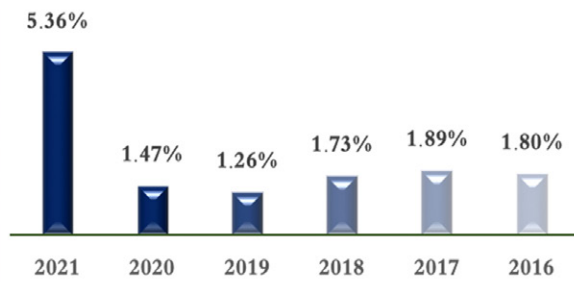
The Industrial Bank of Kuwait («IBK», or the «Bank») was established in late 1973 by the initiative of the Government of Kuwait, as a joint venture between the Ministry of Finance, the Central Bank of Kuwait, commercial banks, insurance companies, and some large industrial establishments.

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

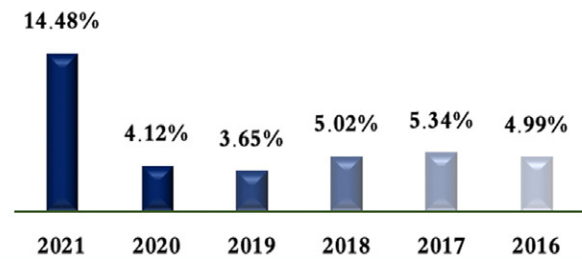
- To participate in developing a long-term strategy for industrial growth in Kuwait and identifying those sectors and activities which would best suit local conditions and constraints.
- To initiate industrial projects and investments in promising sectors.
- To provide financing whether in the form of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

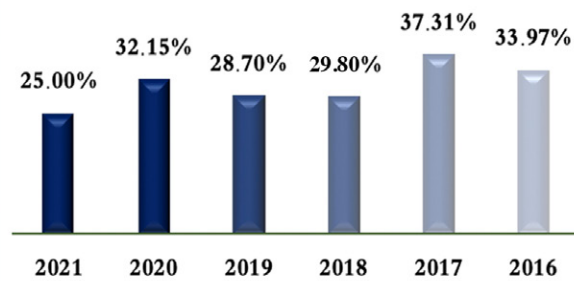
Return on Average Assets (ROA)



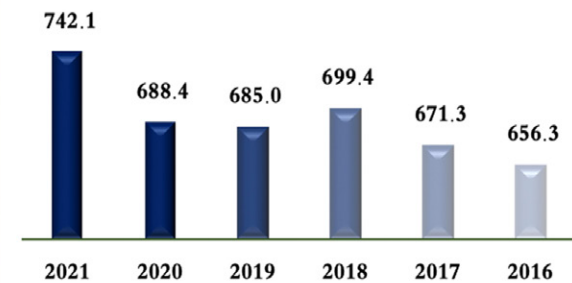
Return on Average Equity (ROE)



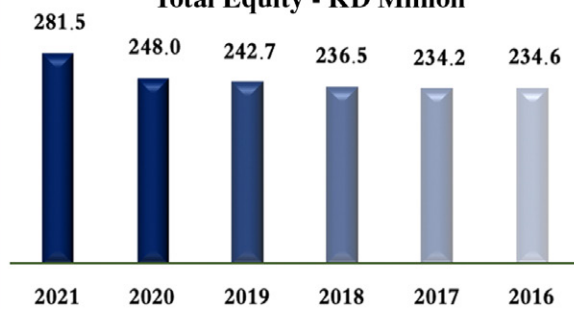
Cost to Income Ratio



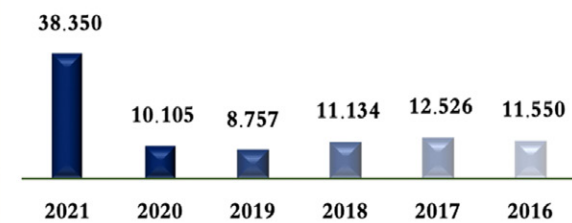
Total Assets - KD Million



Total Equity - KD Million



Net Profit - KD Million



Kuwait Economic developments in 2021

In 2021, Kuwait's economy went through several volatile phases, started with a state of stability as the country succeeded in adapting to the consequences of the Corona pandemic, then the return of instability due to the occurrence of Covid variances and the imbalance economic situation globally. Finally, the rise and spread of "Omicron" virus and return to the state of caution at the beginning of the year 2022.

Standard & Poor's (S&P's) downgraded Kuwait's long-term sovereign credit rating from (AA-) to (A+) with a negative outlook at the beginning of July 2021, due to the failure to implement an integrated financing strategy. It also downgraded its short-term credit rating from (A-1+) to (A-1).

The agency noted that the outlook for Kuwait's sovereign credit rating could be reviewed from negative to stable, if the authorities promptly addressed the financial pressures and funding constraints in parallel with the implementation of structural reform programs that would enhance the institutional effectiveness and improve long-term economic prospects. However, Kuwait's credit rating remains supported by high levels of accumulated financial and external reserves, thereby reducing the ongoing lack of diversification in the Kuwaiti economy and its heavy dependence on the oil sector.

According to the IMF's latest Global Economic Outlook report which was released in October 2021, non-oil GDP is expected to register 3% in 2021, with a gradual recovery in economic activity, growth is expected to reach 3.5% in the medium term. OPEC's decision to raise oil production will boost the oil sector's GDP for an average growth of 4.4% per annum during 2022-2024.

In addition, reaching the full production capacity of both Clean Fuel and Al-Zoor projects will effectively double Kuwait's refining capacity and increase the production of high-value-added refined derivatives in the medium term. GDP is expected to grow by about 2.7% in the medium term.

After the significant negative impact of the Corona pandemic on the global economy during 2020, the world economy recovered as the price of oil increased to about \$29 per barrel in 2021, from the average price per barrel for 2020, bringing the domestic economy back to growth and the fiscal deficit outlook declined.

The Kuwait Stock Exchange also increased in its liquidity level as well as a rise in the general market index, this brings the total liquidity of the stock exchange during 2021, to about KD 13.615 billion, which represent 26.6% higher than year 2020 of about KD 10.75 billion. The premier market recorded about 59.4% of the total liquidity of the stock exchange for 2021, and the main market recorded about 40.6%.

As for the position of the export price of Kuwaiti oil barrel, the actual data shown on the chart indicate fluctuating oil prices during 2021, where the price of a barrel of oil reached its highest level of the year in October at \$82.74/ barrel, confirming the expectations of the Secretary-General of OPEC in January 2021, that the year is witnessing a recovery in prices. In early November, a new wave of concerns began over the impacts of the Corona pandemic and its variants, ending the year with a drop in the price of a barrel of crude oil to 75.38 dollars a barrel.

Chart 1 - Crude Oil Price in 2021

Source: OPEC monthly oil market

The State Budget for fiscal year (2021/2022) was approved with an estimated revenue to reach KD 11 bn, of which KD 9 bn is from oil revenues at oil price of 45 \$/barrel and production volume of 2.4 mn barrels/day, and estimated expenditure at KD 23 bn. Thus, the budget deficit was estimated at about (KD 12 bn). While total revenues amounted to about KD 13 billion according to actual budget data as of December 2021, oil revenues amounted to about KD 11 billion, with total actual expenses of about KD 14 billion. Thus, the budget deficit was about (KD 682 million) at the end of December 2021. The Ministry of Finance assumed a fiscal deficit of about KD 12 bn, achieving an 87% reduction in Kuwait's deficit during the first 9 months of this year. The decline in the deficit is supported significantly by the rise in oil prices during 2021, described in chart 1 and the marginal increase in Kuwaiti oil production.

Estimated & Actual Budget for the year 2020/2021 (KD mn)

Budget	Estimated (2021/2022)	Actual as end of 2021	Actual as end of 2020	Rate of Change %
Oil revenues	*9,127	11,471	5,864	96%
Non-oil revenues	1,802	1,511	1,042	45%
Total revenues	10,929	12,983	6,906	88%
Expenditures	23,048	13,665	12,303	11%
Surplus (Deficit)				
Before deducting for the future generation	(12,119)	(682)	(5,397)	(87%)

* Oil revenues were estimated at oil price of 45 \$/barrel and production volume of 2.425 mn barrels/day.

The annual development plan 21/22 included a number of projects aimed at achieving economic diversification, increasing the contribution of the private sector, developing infrastructure and increasing the efficiency of public finances. The number of projects that contributes to economic development reached 24 projects at a total cost of KD 9.893 million, and the annual follow-up report of the annual plan 21/22 in August 2021 showed that the rate of expenditure on these projects was 2.89%. With regard the strategic projects which have reach a total of 17 projects, and an annual allocation of KD 1,140.6 million, while 7.04% of them were spent, two of which were carried out in partnership between the public and private sectors.

Reviewing what has been spent to achieve the economic development goals in terms of diversifying the production base and increasing private sector contribution at the end of the first quarter of the 21/22 annual plan, there are three related ongoing projects with an investment of about KD 250,000 not yet spent until the end of the first quarter of the plan. As for infrastructure development, which had 42 projects with an estimated investment of KD 5,771 million, of which 11.74% were spent. In addition to one development project which raise public financial efficiency at an estimated cost of KD 2 million, 5.8% of which was spent during the same period.

With regard to the manufacturing sector, which is one of the main pillars of the diversification of Kuwait's production base, the Public Authority for Industry participated in one project of the annual plan 21/22 for the construction, completion, operation and maintenance of the infrastructure of the Industrial Shedadiyah region and until the end of the first quarter of the plan did not make any progress to keep its completion rate at 60%, because of the technical obstacles which faces the projects related to delaying water delivery as well as connecting to major roads and the percentage of spending in it reached 0.14%, which is considered to be Very low.

The Central Bank of Kuwait credit facilities data which are provided by local banks on the total economic sectors of the country indicates on the balance of the cash portion used in the credit facility that reached about KD 42,125 million by the end of November 2021, as described in the following table:

Credit facilities amount

Sector	Amount (KD Mn.)	%
Manufacturing	2,343.9	6
Construction	1,688.8	4
Trading	2,973.7	7
Real Estate	9,433.8	22
Others	25,684.7	61
	42,125	100

Under the current economic conditions, the Central Bank of Kuwait has taken some measures to address the COV crisis.

Since March 2020, the discount rate has remained at 1.5% instead of 2.5%, which is historically the lowest level, in order to enhance cash flows between the banking sector and the non-oil national economy sectors, as lowering the discount rate also contributes to reducing the cost of borrowing in Kuwaiti dinars, thereby encouraging demand for loans by the economic sectors and providing a supportive environment for investment and GDP growth for non-oil sectors.

Kuwait's Manufacturing Sector

With regard to the manufacturing sector, it continues suffering from multiple marketing problems and intense competition in the domestic market, as well as the negative effects of the COV-19 outbreak from the beginning of 2020 to the present.

The manufacturing sector GDP records registered a decrease in their results in 2018 and 2019, as the activities has falling by about 7% in 2019 from 2018.

The manufacturing sector witnessed structural changes during the period 2000-2019, this is due to the difference in annual growth rates in the GDP of various industrial activities because of the concentration of the private sector on the promising industries with high value added. The relative weight of industrial activities has been changed, such as the decline in the activity of the Food and Beverage industries, decreased from 23% to 10%, while the activity of the Chemical Products sector increased from 12.3% to 53% during the same period, as shown in the following table:

Manufacturing Sector GDP

Industry	2000		*2018		**2019	
	GDP KD mn	% Mfg. Sector GDP	GDP KD mn	% Mfg. Sector GDP	GDP KD mn	% Mfg. Sector GDP
Food & Beverages	68.8	23.0	192.6	10.2	175.7	10.0
Textiles	35.6	11.9	79.8	4.2	79.1	4.5
Wood & Wood products incl. Furniture	13.2	4.4	41.8	2.2	47.6	2.7
Paper & Printing	28.2	9.4	76.5	4.1	74.4	4.3
Chemical Products	36.9	12.3	949.5	50.5	921.3	52.7
Non-Metallic Minerals	45.2	15.1	150.8	8.0	78.3	4.5
Basic Metals	4.7	1.6	60.4	3.2	36.3	2.1
Fabricated Metal Products	60.2	20.1	317.4	16.9	325.6	18.6
Other manufacturing	6.9	2.3	10.8	0.6	10.3	0.6
Total Manufacturing GDP (Current Prices)	299.7	100.0	1,879.6	100.0	1,748.6	100

* Revised data

**Preliminary data

IBK's Contribution in developing the Industrial Sector

By the end of 2021, IBK has completed forty-eight years in lending activities, the Bank has provided industrial loans for (1,155) industrial projects. These loans were utilized and made available to (520) industrial establishments in different kinds of manufacturing sectors in the state of Kuwait.

The accumulative industrial loans commitments of the Industrial Bank of Kuwait, since the start of its operations in 1974 until the end of 2021, reached about KD 1.37 billion, provided to 1,155 projects, whose total cost stood at about KD 2.36 billion. The rate of IBK's financing to the cost of the project was an average 58% of the project cost, and the average cost of the project reached KD 2 million, while the average loan size is KD 1.19 million.

Economic Activity (ISIC 4)	No. of Project	IBK Loans (KD 000)	Project Cost (KD 000)	% activity / IBK loans
Other non-metallic mineral products (Building Materials)	238	299,703	582,527	21.80
Extraction of crude petroleum and natural gas	22	140,828	214,869	10.24
Food products	90	140,307	228,006	10.21
fabricated metal products, except machinery and equipment	128	118,205	195,308	8.60
Basic metals	42	93,842	161,886	6.83
Chemicals and chemical products	68	76,925	134,680	5.60
Paper and paper products	93	73,896	114,987	5.38
Other sectors	470	430,948	729,563	31.35
Total	1,155	1,374,654	2,361,826	100.0

The pattern of the accumulative industrial loan financing during the period 1974 – 2021. As indicated in the previous table, shows that the Manufacture of other non-metallic mineral product (construction materials) ranked at the top, with about 21.8% of the total industrial loans. Extraction of crude petroleum and natural gas ranked second for about 10.24%.

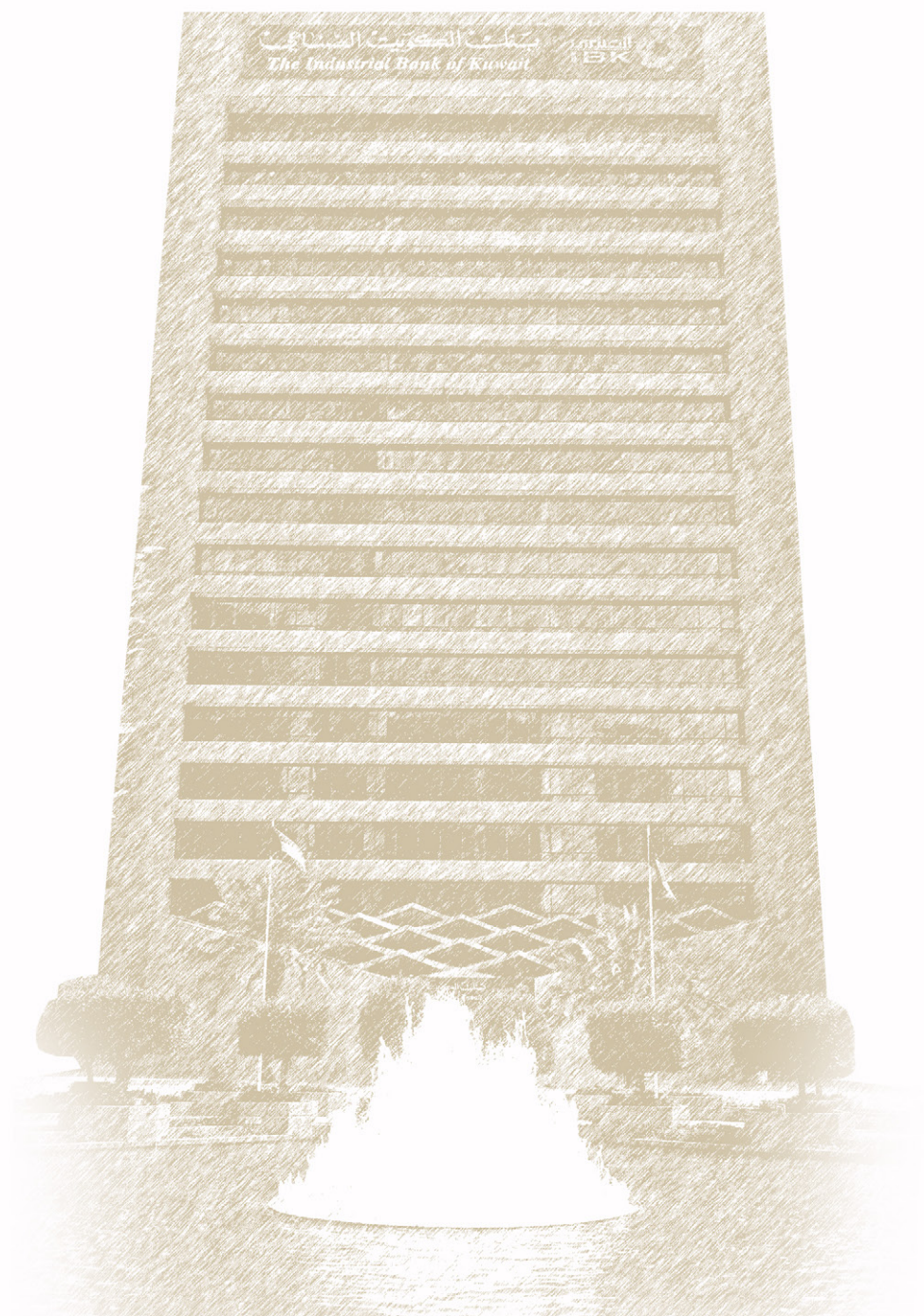
The third rank was occupied by Manufacture of food products whose relative share reached about 10.21% of industrial loans during the period. The aforementioned three industries together accounted for 42.25% of industrial loans commitments during 1974 – 2021.

The following table shows the Industrial loans activities during the last five years:

Industrial Loan commitments	2017	2018	2019	2020	2021
Number of Industrial Loans	27	17	29	17	20
Projects Cost (KD 000)	86,047	20,075	52,829	33,775	67,494
Total Loans commitments (KD 000)	56,038	12,283	41,774	25,901	61,381
IBK contribution %	65	61	79	77	91

On the other hand, the Industrial Portfolio for Small Enterprises conducted a comprehensive field survey to find out the repercussions of the Corona pandemic and the effects on its customers, and saw the need to postpone the installments of the portfolio's clients who wish to do so for an additional 6 months, starting from April 2021 until the end of April 2022 to support them fulfilling their financial obligations that occurred as a result of imposition the closures that the country witnessed, following the health requirements imposed by the state to prevent the spread of the pandemic from spreading.

Chairman's Message





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 2021 Annual Report, which sheds light on the performance of main business segments during the reporting period.

The repercussions of the Corona pandemic have dominated the course of events since 2020, and its impact extended until the end of 2021 on all global economies as a result of stressed supply chain, wide spread shortages, high inflation, rise in commodity prices and decline in industrial production. These require immediate intervention to support vital Industrial sectors, including the development of appropriate legislation to protect local products from competition.

Further, The Industrial Bank of Kuwait (IBK) adopted new measures to limit the negative effects of the pandemic on the Bank's operational activities through adoption of a new strategic plan that is in alignment with Kuwait's 2035 vision. This was approved during the last quarter of 2021 and will commence implementation in early 2022 and run for the next five years.

Despite the effects of the pandemic on economic and banking conditions, The Bank recorded an unprecedented profit of KD 38.4 million, an increase of 280% over the comparable period of 2020, along with marked improvements in the bank's asset quality and overall operational effectiveness, supported by strong financial soundness indicators that weathered severe conditions.

The Fitch Rating Agency has affirmed Industrial Bank of Kuwait (IBK) Long-Term Issuer Default Rating (IDR) at 'A+' for 2021 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 affirmed at F1.

During FY2021, the Bank continued its role in supporting the industrial sector, through financing 20 projects with a total cost of KD 67.5 million, compared to financing 16 industrial projects with a total cost of KD 33.8 million in FY2020. Further, the Bank continued managing three portfolios on behalf of the government to fund and promote agriculture in the state of Kuwait, extend finance to handicrafts and small industries and provide industrial finance to establishments in accordance with Islamic Sharia. During FY2021, Al-Sanai portfolio for small enterprises financed 83 projects at a total cost of KD 11 Million. While, The Agriculture Finance Portfolio

promoted and financed 38 projects at a total cost of KD 5.9 Million, compared to KD 3.8 million in 2020 for 25 projects for agricultural, livestock and fish production activities. It also provided a portfolio of industry finance in accordance with the provisions of Islamic Sharia. A total of 4 projects, at a cost of 5.8 million Kuwaiti dinars.

Finally, in my name and on behalf of members of the Board of Directors, I would like to tender my 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 had a significant impact on IBK success.

Last but not least, 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

A handwritten signature in blue ink, belonging to Musab Salem Al Nisf, is positioned above his name.

Musab Salem Al Nisf

Board of Director Members



Mr. / Musab S. Al Nisf

Chairman (started 10/5/2018)
A representative of Kuwait Investment Authority
* Head of General Managers:
- Al-Nisf Electrical Co.
- Salem M. Al-Nisf General Building Contracting Co. (2002)
The Founder & Partner of KMEDIX General Trading Co. (2000)
Board Member- Kuwait Chamber of Commerce & Industry

Member of Board of Trustees -Kuwait Institute for Scientific Research – Board of Trustees.
Member -Public Authority for Industry
Board Member - Kuwait Banking Association
Kuwait Foundation for the advancement of sciences – IED Advisory Council
Has a Bachelor degree in accounting – Kuwait University (1998)



Mr. / Salah M. Al-Kulaib

Vice chairman (started 2/5/1995)
A representative of the Kuwait Flour Mills & Bakeries Co.
Chairman – Kuwait Supply Co.
Vice Chairman – Bahrain Flour Mills Co.
Has a Bachelor of Mechanical Engineering – University of New Haven-USA (1977)



Mrs. / Aljazi Ali Al-Mishwat

Board Member (started 12/9/2018)
A representative of the Kuwait Investment Authority
Chief specialist Custodian - Investment Accounts Dept. Kuwait Investment Authority (2020)
Has a Bachelor degree in Mechanical Engineering – USA (2001)



Shaikha / AlAnoud Athbi Al-Sabah

A representative of Commercial Bank of Kuwait
VP Operations – Securities Group Co. (2018)
AL Jazeera Real Estate Development Co.
Gulf Friend Real Estate Co.
Mowasat Health Care Co.
Has Bachelor of Business Administration – Finance
American University of Kuwait (2011)



Mrs. / Basma A. Al-Farsi

Board Member (started 10/5/2018)
A representative of the Kuwait Investment Authority
Investment Manager – Equities Dept. Kuwait Investment Authority (2018)
Has a Bachelor of Information Management Systems (2003)
Harvard Business School - Has GMP



Mr. / Khaled H. Al Shatti

Board Member (started 6/6/2017)
A representative of Al Ahli Bank
CEO - Fair Real Estate Co. (2011)
Board Member -Ahli Capital Investment Co.
Has a Bachelor of Business Administration – Finance – California State University – USA (1988)



Mr. / Khalid A. Al-Fadhalah

Board Member (started 23/12/2014)
 A representative of Wafra International Investment Co.
 Deputy Director General for Social Security Affairs - The Public Institution for Social Security (2014)
 Fujairah Cement Industries – Abu Dhabi
 Board of Trustees-Insurance Fund for Kuwaiti employees in the Petroleum Sector
 Public Authority for Disability Affairs
 Agility Logistics Co.
 Has a Bachelor of Business Administration- Marketing – Kuwait University (1982)



Mrs. / Rasha F. Al- Amir

Board Member (started 10/5/2018)
 A representative of the Kuwait Investment Authority
 Unit Manager Portfolio Monitoring & Reporting division (2017)
 Acting Division Manager – Corporate Development & Reporting Division (2021)
 Vice Chairman – Ekuity Holding Co. (Egypt)
 Has a Bachelor of Computer Science (1994)



Mr / Abbas A. Radhi

Independent Board Member (started 27/07/2021)
 Responsible Partner - Awael Public Accountants and Management Consultants – Bahrain (2016)
 Certified Public Accountant (CPA) - USA (1996)
 Certified Arab Accountant (CAA), International Arab Society of Certified Accountants. (1988)
 Master of Business Administration (MBA) majoring in commercial law and finance - Maine State University - USA. (1984)

Master of Science in Business (MSB) majoring in accounting - Husson University, Maine - USA. (1983)
 Bachelor of Accounting (BSc) - Kuwait University (1977)
 “Insiad” certification for qualification as a board member.
 Independent Board Member at:
 - Solidarity Group Holding - Bahrain
 - BMMI Co. - Bahrain - Shaheen Holding Gr



Mr. / Meshal A. Al Othman

Board Member (started 6/6/2017)
 A representative of Wafra International Investment Co.
 Director Manager – The public Institution for Social Security (2019)
 Chairman:
 Ahli United Bank (Bahrain & UK).
 Wafra Intervest Co. (Bermuda).

Kuwait Medical City Co.
 Board Member:
 Puplic Institution for Social Security.
 Kuwait Awqaf puplic foundation.
 Has a Bachelor degree in Science- Major in Marketing -
 Minor International Studies (1996) University of South Florida - USA



Mrs. / Hana A. Razzouqi

Independent Board Member (started 27/07/2021)
 Master Degree – Computer Science, George Washington University – USA (1984)
 Bachelor: Bio Engineering – Syracuse University – USA (1978)



Mrs. / Haya B. Al-Humaidi

Board Member (started 16/02/2021)
 A representative of Central Bank of Kuwait
 Manager – Financial Stability Office – Central Bank of Kuwait
 Bachelor of accounting - Kuwait University (2011)

Capitalization & Ownership

#	Shareholder Name	No. of Shares	%
1	Ministry of Finance	627,803	31.390
2	Wafra International Investment Company (Customers) K.S.C.C	464,199	23.210
3	The Central Bank of Kuwait	251,121	12.556
4	Commercial Bank of Kuwait K.P.S.C	89,686	4.484
5	Al-Ahli Bank of Kuwait K.P.S.C	89,686	4.484
6	Kuwait Flour Mills & Bakeries Co. S.A.K.C.	89,686	4.484
7	Privatization Holding Company K.S.C	89,686	4.484
8	The Securities Group Company K.S.C.	89,686	4.484
9	Kuwait Investment Company (Kuwait Investment Authority) S.A.K	71,749	3.587
10	Arab Investment Co. K.S.C.C	53,812	2.691
11	Financial Assets Company Bahrain W.L.L	49,496	2.475
12	Burgan Bank K.P.S.C	17,937	0.897
13	Bobyar Petrochemical Company K.S.C	13,453	0.673
14	Gimbal Holding Company	2,000	0.100
Total		2,000,000	100.000

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

<u>Members</u>	<u>No. of Meetings</u>	<u>Attendance No.</u>
Mr. / Musab S. Al Nisf - Chairman	12	12
Mr. / Salah M. Al-Kulaib – Vice Chairman		12
Mrs. / Aljazi Ali Al-Mishwat		12
Sheikha / Al Anood Athbi Al Sabah		8
Mrs. / Basma A. Al- Farsi		12
Mr. / Khaled H. Al Shatti		12
Mr. / Khalid A. Ai-Fadhalah		9
Mrs./ Rasha F. Alamir		11
Mr. / Abbas A. Radhi (As of 27/07/2021)		4
Mr. / Meshal A. Al Othman		9
Mrs. / Hana A. Razzouqi (As of 27/07/2021)		4
Mrs. / Haya B. Al-Humaidi (As of 16/02/2021)		8

Board Committees

Governance Committee

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

<u>Members</u>	No. of Meetings	Attendance No.
Mr. / Salah M. Al-Kulaib - Chairman	1	1
Mr. / Khalid A. Ai-Fadhalah - Vice Chairman		1
Sheikha / Al Anoud Athbi Al-Sabah - Member		1
Mrs./ Rasha F. Alamir - Member		1
Mrs. / Hana A. Razzouqi (As of 11/08/2021)		1
Mrs. / Haya B. Al-Humaidi (As of 21/02/2021)		1

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.

<u>Members</u>	No. of Meetings	Attendance No.
Mr. / Abbas A. Radhi - Chairman (As of 11/08/2021)	6	3
Mrs. Rasha F. Alamir - Vice Chairman (As of 29/08/2021) - Chairman (Till 11/08/2021)		5
Mrs. / Basma A. Al-Farsi - Member (As of 29/08/2021) - Vice Chairman (Till 29/08/2021)		6
Sheikha / Al Anoud Athbi Al-Sabah - Member		5

Nominations 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.

<u>Members</u>	<u>No. of Meetings</u>	<u>Attendance No.</u>
Mr. / Salah M. Al-Kulaib - Chairman	3	3
Mr. / Khaled H. Al Shatti - Vice Chairman		3
Mrs. / Aljazi Ali Al-Mishwat - Member		3
Mrs. / Basma A. Al-Farsi - Member		3
Mr. / Meshal A. Al Othman - Member		3
Mr. / Abbas A. Radhi - Member (As of 11/08/2021)		1

Risk Committee:

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

<u>Members</u>	<u>No. of Meetings</u>	<u>Attendance No.</u>
Mrs. / Hana A. Razzouqi - Chairman (As of 11/08/2021)	4	2
Mr. / Khalid A. AL-Fadhalah – Vice Chairman (As of 18/08/2021) - Member (As of 15/02/2021 till 18/08/2021) - Chairman (Till 15/02/2021)		4
Mrs. / Aljazi Ali Al-Mishwat - Member (Till 15/02/2021) - Chairman (As of 15/02/2021 till 11/08/2021)		2
Mr. / Khaled H. Al Shatti - Vice Chairman (As of 15/02/2021Till 18/08/2021) - Member (Till 15/02/2021)		4

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.

<u>Members</u>	<u>No. of Meetings</u>	<u>Attendance No.</u>
Mr. / Musab S. Al Nisf - Chairman	5	5
Mr. / Salah M. Al-Kulaib - Vice Chairman		5
Mrs. / Aljazi Ali Al-Mishwat - Member (As of 11/08/2021)		3
Mr. / Meshal A. Al Othman - Member		5

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 considers 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.

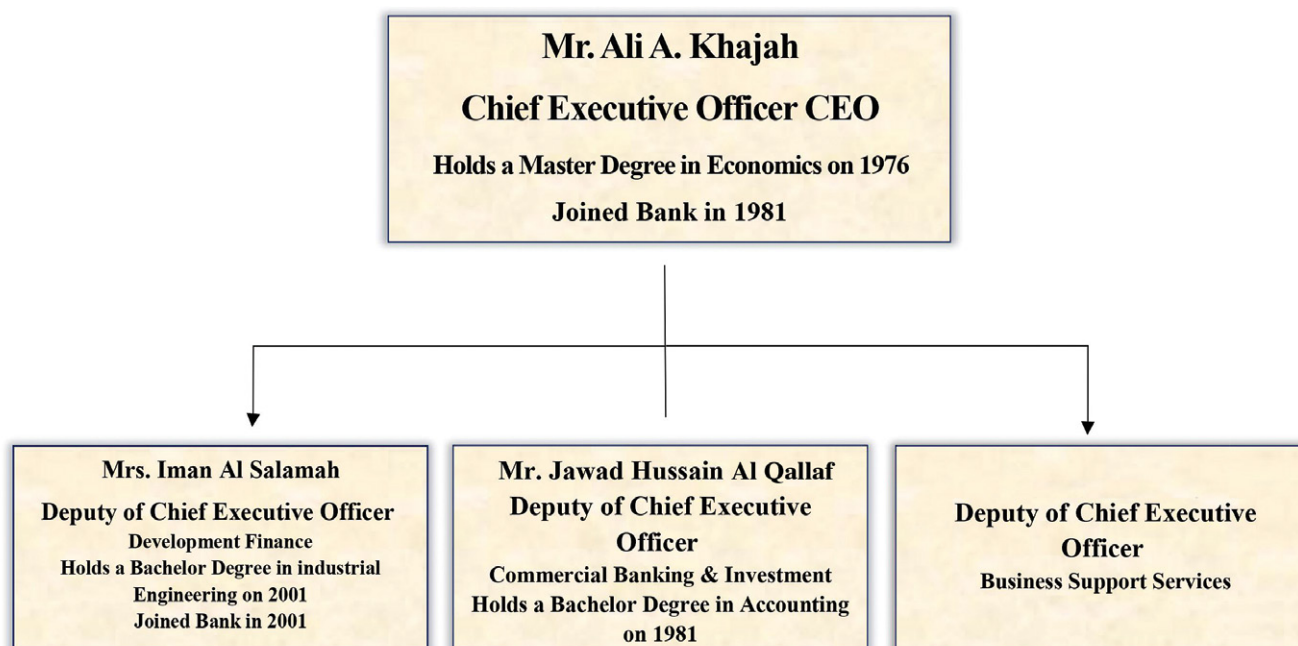
Disclosures

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

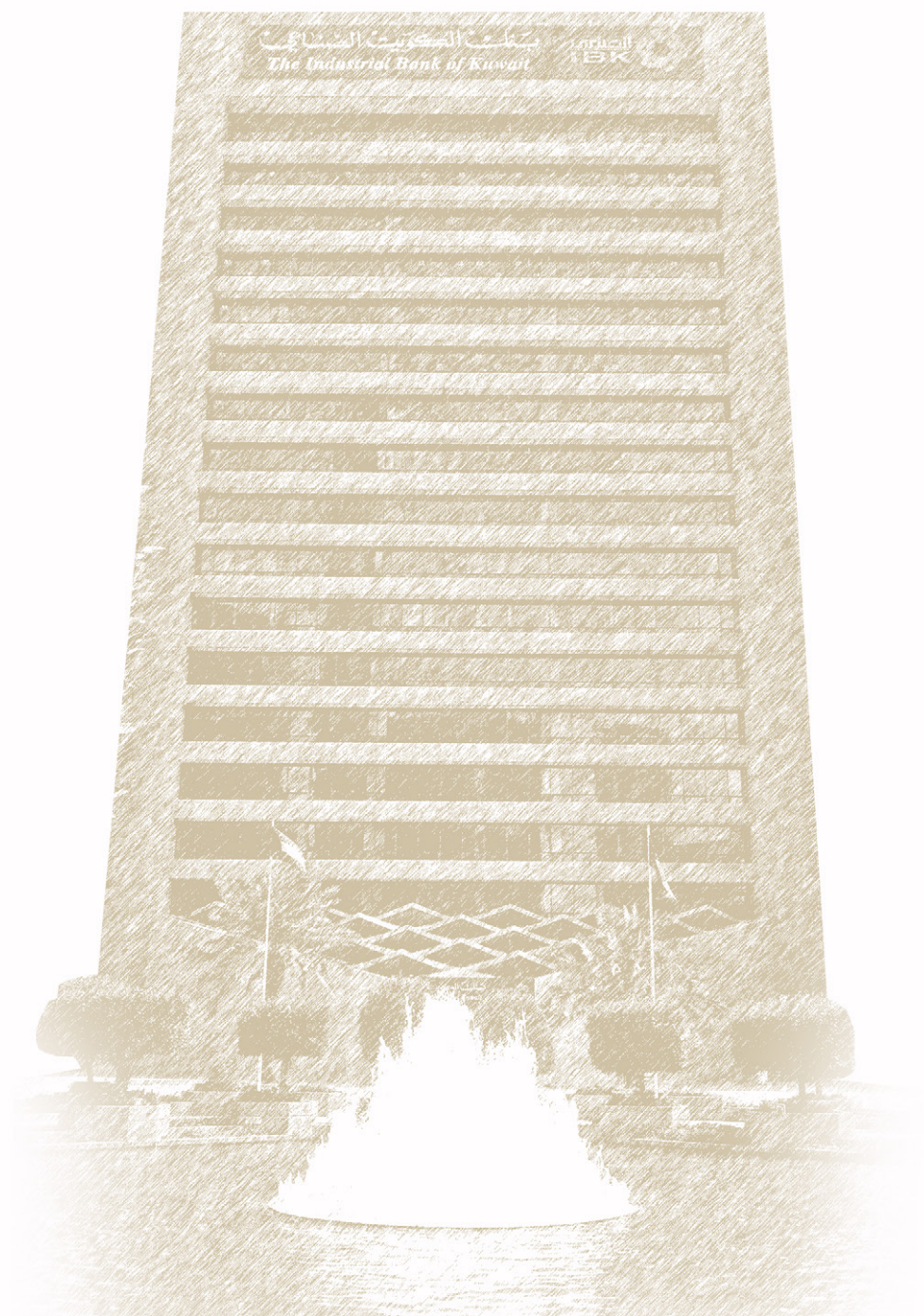
Policy Review

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



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 2021, 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 OR scan the QR Code:

<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 considering 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	3	Salaries: 383,940 KD Tickets: 4,075 KD Insurance benefits: 7,592 KD Yearly bonus: 57,591 KD Social Security: 19,995 KD	Cash Cash Cash Cash Deferred Cash	Special bonus: 280,872 KD	Cash
Second Category	6	Salaries: 259,095 KD Tickets: 5,732 KD Insurance benefits: 7,359 KD Yearly bonus: 39,706 KD Social Security: 12,049 KD	Cash Cash Cash Cash Deferred Cash	Special bonus: 89,806 KD	Cash
Third category	5	Salaries: 255,492 KD Tickets: 5,100 KD Insurance benefits: 8,808 KD Yearly bonus: 38,324 KD Social Security: 34,425 KD	Cash Cash Cash Cash Deferred Cash	Special bonus: 86,111 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 (7 persons) amounted to 706,482 KD. The financial remuneration package paid to the Board of Directors amounted to 298,000 KD.



Board of Directors

Industrial Bank of Kuwait - K.S.C. (Closed)
PO Box 3146, Safat 13032
State of Kuwait

October 28, 2021

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated March 18, 2021, we have examined the accounting and other records and internal control systems of the Industrial Bank of Kuwait - K.S.C. (the "Bank") for the year ended as at December 31, 2020:

We covered the following departments and activities of the Bank:

- | | |
|--|---|
| ▪ Chairman Office; | ▪ Compliance Unit; |
| ▪ Risk Management Department; | ▪ Accounts Department; |
| ▪ Human Resources and Administration Department; | ▪ Disclosure Unit; |
| ▪ Direct Investment and Promotion Department; | ▪ Information Technology Department; |
| ▪ Projects Finance Assessment Department; | ▪ Financial Planning and Control Unit; |
| ▪ Projects Finance Department; | ▪ Operations Department; |
| ▪ Commercial Banking Department; | ▪ Agriculture Financing Portfolio; |
| ▪ Commercial Credit Assessment Department; | ▪ Legal Department; |
| ▪ Treasury Department; | ▪ Al-Senai Portfolio for Small Enterprises; |
| ▪ Research Department; | ▪ Internal Audit Department; |
| ▪ Credit Administration Department; | ▪ Information Security Unit; |
| ▪ Customer Complaint Unit; | ▪ Anti-Money Laundry Department. |

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) letter dated 7 January 2021 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and its amendments on 10 September 2019, instructions dated 14 May 2019 concerning Anti-money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.



As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

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

With the exception of the matters set out in the report submitted to the Board of Directors of the Bank, and having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2021, and the materiality and risk rating of our findings, we report that:

- a. The accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 14 November 1996 and letter issued by CBK on 7 January 2021.
- b. The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2020, and
- c. The actions taken by the Bank to address the findings referred in the report, including previous years' findings, are satisfactory.

Best Regards,



Sanjeev Agarwal
Managing Director
Protiviti Member Firm Kuwait WLL



Executive Summary

This Executive Report highlights the progress and results achieved during FY 2021 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.

Our financial results this year demonstrated the underlying strengths of our business in light of coronavirus pandemic. Net profit increased by 280% comparable with FY20, led by strong operational investment's performance, which offset the impact of lower net interest income resulted from reduced discount rate to a historic low of 1.5 percent.

The strength of our balance sheet is a key highlight as it underpins our ability to deliver return for shareholders. As the return on average equity for shareholders of the Bank increase by 251% to reach 14.48% comparable with 4.12% for FY20.

In respect of quality of asset portfolio, our continuous efforts focused towards enhancing the quality of assets have resulted in the continued decline of non-performing debts to their lowest ratio in eleven years to 0.3%, thanks to the identification of priorities and close monitoring and follow up of customers financial conditions by the provisions committee in the Bank and taking appropriate measures by executive management in a timely manner.

Our main theme for this year to continue our path in supporting the industrial sector recovery from the effects of the Corona pandemic, and support its infrastructure despite the heavy challenges in 2022, and we remain optimistic about credit growth despite the decline in interest income that calls for. We focus more on the efficiency of performance and the distribution of capital assets.

During the year 2021, the Bank contracted with one of the global consulting offices to prepare a comprehensive 5 years strategic plan that covers all The Bank's activities.

This plan was approved during the last quarter of 2021 and will be implemented in early 2022. We look forward to the future in parallel with the implementation of the strategy to open the way for good opportunities, to expand the range of our products as well as increase the base of our customers and diversify the Bank's operating model.

A handwritten signature in blue ink, appearing to read 'Ali A Khajeh', is positioned above the name and title. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ali A Khajeh
Chief Executive Officer

Achievements of Main Operational Activities:

Industrial loans

During year 2021, the bank has completed studying 20 industrial loan requests, which were approved to be granted long-term industrial loans, consisting of 17 expansion projects & 3 new projects.

The total industrial loans commitments reached KD 61 million in year 2021, with total projects cost of about KD 68 million. The total industrial loans commitments represented 90% of total projects cost.

Loan Commitments During 2021

Sub-Sector	No. of Projects	Total project Cost	IBK Financing	Finance Share %
		(KD 000)		
Manufacture of food products	1	1,512	1,058	1.72
Manufacture of products of wood, cork, straw & plaiting materials	1	1,077	800	1.30
Manufacture of paper and paper products	1	1,982	1,982	3.23
Manufacture of coke & refined petroleum products	1	40,000	40,000	65.17
Manufacture of chemicals products	3	3,150	2,130	3.47
Manufacture of rubber & plastic	3	2,076	1,592	2.59
Manufacture of other non-metallic mineral products	3	6,802	5,779	9.41
Manufacture of fabricated metal products	3	1,667	1,120	1.82
Manufacture of basic metals	1	6,700	5,250	8.55
Manufacture of machinery and equipment	2	2,240	1,480	2.41
Manufacture of furniture	1	287	190	0.31
TOTAL	20	67,493	61,381	100

The table indicates that the manufacturing of coke and refined petroleum products ranked first, accounting for 65.17% of industrial loans commitments in year 2021, this is due to financing 1 industrial project for a financing amount of KD 40 million, while manufacturing basic metals came second representing 9.41% of industrial loans commitments in year 2021.

Industrial Loan Commitments during 2015-2021

Statement	2015	2016	2017	2018	2019	2020	2021	Cumulative 1974-2021
Number of industrial Loans	26	28	27	17	29	17	20	1,155
Total Cost of Projects Financed (KD 000)	79,255	92,365	86,047	20,075	52,829	33,775	67,493	2,362,336
Total loan Commitments (KD 000)	57,251	63,879	56,038	12,283	41,774	25,901	61,381	1,374,654
Percent of Commitments-to- Total Project Costs (%)	72	69	65	61	79	76	90	58.2
Average Project Cost (KD 000)	3,048	3,299	3,187	1,181	1,822	1,987	3,400	2,045
Average IBK Financing/project (KD 000)	2,202	2,281	2,075	723	1,441	1,524	3,069	1,190

Cumulative industrial loans commitments since the bank commenced lending operations in year 1974 until the end of year 2021 reached KD 1.374 bn, representing 58.17% of the aggregate project costs of KD 2.362 bn for 1,155 projects financed by IBK.

Corporate Finance

The Commercial Banking Relationship Management Department continued, during 2021, to offer a full range of commercial banking facilities to the industrial sector clients in Kuwait by providing working capital facility, project finance facility, short/medium term loans, etc. The department also provided bridge financing to industrial clients pending approval / disbursement of long term industrial loans. The banking facilities granted by the department are priced at market rates. In addition, the department is also responsible for the establishment and monitoring of treasury lines to domestic and international banks and financial institutions.

During 2021, the portfolio total outstanding witnessed an increase to KD 174.744 Million by end of 2021 comparing with KD 173.601 Million by end of 2020, which represent an increase by 0.66%. This increase (in cash facilities) was mainly due to normal life resuming in 2021, where new projects and contracts were tendered by the government. Therefore, our clients utilized the granted facility in this regard.

The portfolio also witnessed an increase in the non-cash facilities by 6.62% compared to last year, increasing from KD 73.527 Million as of end 2020 to KD 78.398 Million, as a result of utilizing non-cash facilities to execute the projects and contracts.

On the other hand, the department continued granting some facility packages to existing as well as new customers, particularly in the steel, construction, metal, food products.

Continuing its policy of primary focus on the domestic market, the department's activity on the international side was low-key.

Direct Investment

The Direct Investment & Promotion Department (DIP) continued investing cautiously in promising opportunities within the Private Equity space (including Venture Capital & Infrastructure) primarily through existing fund managers who have performed well for the bank which has been amply demonstrated through their successful track record. These managers have stuck to their core strategies and investment discipline even during the unprecedented times of a global Pandemic that spread across the globe, in addition to utilizing the bull equity market to divest from some of their mature assets achieving very attractive returns for IBK.

The bank's carefully constructed and diversified portfolio of international investments has successfully led the bank to achieve the fifth year of consecutive record returns on its investment portfolio. On the local front, DIP slightly and gradually increased local investment exposure in companies with unique business models that serve the local industrial content.

As a result of the aforementioned, the investment book of the bank including its subsidiaries has increased by 12.89% reaching KWD 161.444 Million in 2021 compared to 142.998 Million in 2020, while assets under Management reached KWD 134.107 Million for the same period.

The positive performance of the Private Equity Funds portfolio led to exceptional returns for five consecutive years on the overall investment book of the bank. DIP will continue to carefully explore lucrative local and international investment opportunities in the industrial and industrial related sectors, supporting Kuwait's strategic development plans and pursue the Bank's objective of actively participating in new industrial projects and activities.

Treasury

The Treasury Department is responsible for efficiently managing the daily cash flow and liquidity by utilizing the foreign exchange, money markets and debt capital markets.

Despite the current economic circumstances and the low interest rate environment during 2021, The Treasury Department was able to overcome the challenges through prudent management. The department managed to successfully secure foreign currency financing through bilateral loans in both Euros and US dollars with GCC and European banks.

Moreover, the department continued to develop and maintain activities in Kuwaiti dinars and foreign currencies as well as investing in Kuwaiti dinar denominated Central Bank bonds to maintain high quality liquid assets, good growth and to avoid any price decline.

Treasury Department sought to maximize returns by seizing market opportunities and continued to diversify its activities, achieve expected profits and reduce the cost of funds. It also sustained good relationships with local and international banks while continuing to serve the bank's customers and meet their foreign exchange needs at competitive exchange rates along with providing technical guidance.

Furthermore, By the constant efforts of the ALCO committee, the bank managed to implement CBK's instructions to its operations, which guided the bank to control market risk and liquidity risk beside predicting future trends of foreign exchange prices and interest rates in the financial market.

Portfolio Management

Al-Senai portfolio for small enterprises continued on supporting activities of Kuwaiti youth in the field of small business by providing funds in accordance to Islamic finance which in turn seeks to support the aspirations of the state through national manpower restructuring, and directing youth for self-employment, which contribute in diversification of production and service activities in Kuwaiti economy.

It is observed during this year that the performance of the portfolio is significantly higher than year 2020, as a result of the country being affected by the emerging coronavirus (COVID-19).

In 2021, the portfolio financed total of 83 projects, with 11.016 million Kuwaiti dinar investment cost. While Al-Senai portfolio funding amount reached 7.848 million Kuwaiti dinar equivalent to 71.24 % of total cost of project.

First: Project financing:

Category	No.	Investment	Portfolio Share	Percentage %
Manufacturing	17	3,223,933	2,278,034	29.02
Human health and social work activities	7	2,296,759	1,388,848	17.69
Transportation and storage	13	1,425,068	1,264,755	16.11
Wholesale & Retail trade	17	968,315	845,168	10.76
Accommodation and food service activities	12	931,789	751,260	9.57
Other service activities	5	674,082	370,360	4.71
Education	3	594,774	336,712	4.29
Arts, Entertainment and recreation	2	313,900	236,455	3.01
Professional, scientific and technical activities	3	407,850	233,470	3
Information and communication	3	112,276	89,476	1.14
Administrative and support service activities	1	67,636	53,685	0.70
Total	83	11,016,382	7,848,223	100

The following table indicates the number of funding projects, according to top three sectors as following:

No.	Category	No of projects
1-	Manufacturing	17
2-	Wholesale & Retail trade	17
3-	Transportation and storage	13

The following table indicates investment cost and portfolio finance share, according to top three sectors with 63 % of Al-Senai portfolio share:

No.	Category	Investment	Portfolio Share	Percentage %
		(K.D)		
1-	Manufacturing	3,223,933	2,278,034	29.02
2-	Human health and social work activities	2,296,759	1,388,848	17.69
3-	Transportation and storage	1,425,068	1,264,755	16.11

Second: Facilitated Finance:

With reference to Cabinet of Ministers No. (455) issued on 31/3/2020 regarding providing concessional financing to clients affected by the Coronavirus crisis, and the Central Bank's instructions regarding the controls of this financing provided to affected clients on 22/4/2020, the portfolio has provided concessional financing to cover the deficit of flows operating cash (salaries - leases - suppliers' claims) for 2 projects from the portfolio clients, as the value of these funds amounted to KD 86,450, and the following table shows details of the portfolio financing during the year 2021:

Category	No.	Concessional Financing Value	Percentage %
Manufacturing	1	54,900	63.50
Other service activities	1	31,550	36.50
Total	2	86,450	100

The Islamic Industrial Financing Portfolio

has an objective to support 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. Thus, 4 new Industrial projects were financed in accordance to Islamic Shari'a during year 2021.

Cumulative industrial financing commitments since the portfolio commenced its financing operations in year 2009 until the end of year 2021 reached KD 69 mm, presented to 37 Industrial projects.

Cumulative Finance Commitments during 2009 – 2021

	During year 2020	Cumulative 2009 – 2021
Number of Projects	4	37
Total Projects Cost (KD 000s)	5,825	151,278
Portfolio Finance (KD 000s)	3,701	68,858

Agricultural Projects Loan approved during the period:

The agricultural loans committee approved to grant (38) agricultural loans during 2021. The total project cost is estimated at KD (5,909,320) however, the agricultural portfolio's contribution was KD (3,535,000) this represent 60% of the cost of the projects distributed as below:

Sector	No	Total Project Cost	Agricultural Portfolio Financing
Planting	16	3,071,390	1,779,000
Food security	3	378,650	235,000
Fish farming	1	327,000	200,000
Short term	8	160,000	160,000
Fishes	3	263,340	141,000
Eggs	1	55,000	30,000
Poultry	2	545,000	280,000
Dairy	4	1,108,940	710,000
Total	38	5,909,320	3,535,000

As is evident from the above table, the planting sector has the highest agricultural financing to the total financing around (50%). The dairy Farm comes second with (20%).

Loans signed during the period from 01.01.2020 – 31.12.2021

Total of (34) loans were signed during this period divided amongst the following sectors:

Sector	No	Total Project Cost	Agricultural Portfolio Financing
planting	15	2,339,390	1,339,000
Food security	3	378,650	235,000
Short term	8	160,000	160,000
Fishes	2	88,840	46,000
Eggs	1	55,000	30,000
poultry	1	452,200	230,000
Dairy	4	1,108,940	710,000
Total	34	4,593,020	2,750,000

Site Visits:

The agricultural portfolio made a total of (346) visits during the period to different agricultural sectors to evaluate new projects (follow-up the projects financed and for loan disbursements).

Repayments

The total repayments (installments) during the period from 01.01.2021 till 31.12.2021 totaled (KD 4,054,669) of the total expected repayment of (KD 4,639,963) repayment rate of (87%), this percentage is more than what it was in 2021, the reason for the higher repayment rate is because some of the clients paid their loans in full.

Loan Applications for financing agricultural projects:

There is a total of (14) loan application for financing agricultural projects amounting cost of (KD 3,205,000) expected financing (KD 1,877,000).

Research

During the year 2021, the department conducted several market research studies on various industrial products in Kuwait to determine the viability of producing these industrial products locally, through the current and projected supply and demand in the local market, the level of competition between local and imported products, marketing mix elements, and estimating the market share of the new products.

During this year, the department completed a sectoral study about “Aluminum Profiles & Fabrication industries in Kuwait”, which was presented at the Finance & Investment Committee. A special Study was also submitted on “Evaluating the impact of raising the prices of the Basic Raw Materials”, and also presented at the Finance & Investment Committee.

Also, during the year, the Department presented the 8th edition of the Guide to the Industrial Establishments approved for financing by the Industrial bank of Kuwait during 1974-2021”. In additional to the” IBK Industrial Loans Commitments History” Report (1974 - 2021). Moreover, finished “The Economic report to be included in the IBK Annual Report for 2021. Also submitted two periodical reports of “The Bi-Annual Economic Review”.

Currently, the department is preparing a sectoral study on “Dairy Products in Kuwait”, in addition to the preparation of the “Plastic bags & rolls” sectoral study.

The department works continuously on updating and expanding its industrial database on markets and industry in Kuwait, through field visits to factories and participation in conferences, seminars, workshops and exhibitions. The Department 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 the Year 2021, the Information Technology Department's main focus was to strengthen the Governance and continue with projects related to Compliance and implementing critical technical upgrades.

During 2021, ISO 27001 Certification was completed successfully and was certified. Based on ISO 27001, the IT procedures were drafted and approved. Cyber Security Framework (CSF) assessment was completed. The IT Project Management Framework was drafted and approved.

The new AML system (OMNI Enterprise) project's objective is to implement a new application with enhanced functionalities that would meet business and CBK's requirements. This went live in January 2021.

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) which would facilitate local (KWD) payments. This project went live in July 2021 as directed by CBK and accordingly TMS/X system for facilitating KNPS-RTGS was implemented.

Alerts (Puffin system) project with the objective to send SMS and Email Alerts to bank's customers regarding expiry of KYC documents went live in September 2021.

SWIFT 2021 enhancements were implemented in November 2021.

During 2021, All IBK Workstations were upgraded to Windows 10, out of date desktops were replaced with state-of-the-art desktops and outdate firewalls were replaced. ETL redesign was completed resulting in operational efficiency of the Data Warehouse. Fixed Assets system (HardCat) was upgraded. TBS Tableau Dashboard and reporting tool were enhanced.

Human Resources and Corporate Social Responsibility

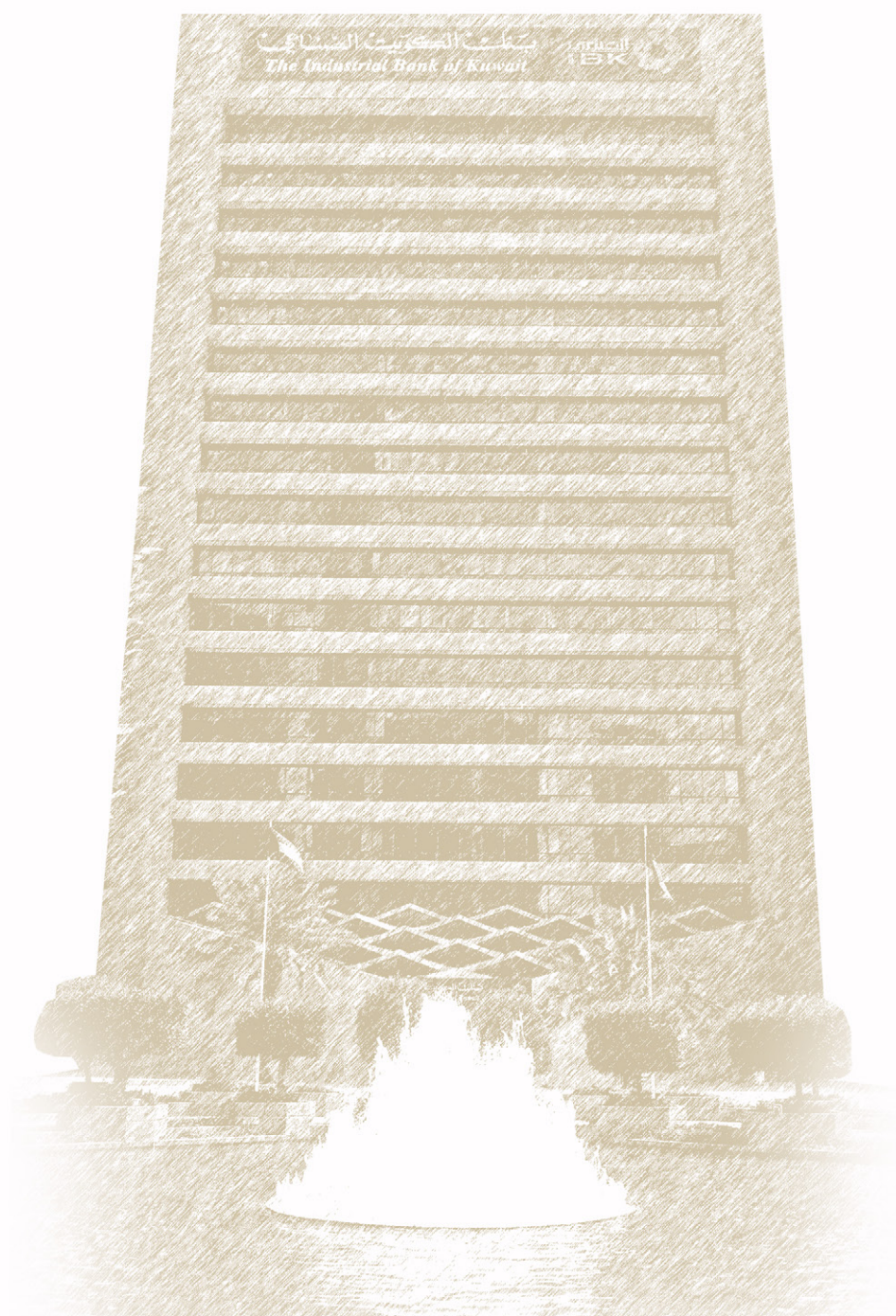
The Human Resources Department is always keen to fulfil its commitment towards its employees. During 2021, the department utilized all tools and resources in its power to provide their employees with the highest level of training in alignment with IBK's succession plans. Which ensures the availability of highly trained and experienced staff readily available for transfer to other departments' enabling them to face all challenges in co-ordination with reputable training organizations.

On the other hand, the number of Kuwaiti employees reached 146 employees at the end of 2021 which represent 78.9% of total workforce in the bank.

The Bank is always keen on its commitment to its employees to participate in media seminars and awareness lectures on the importance of the industry as an essential source of the country's economic tributaries. During 2021, the Bank has arranged (69) different training courses for 92 employees that will raise the technical, leadership and administrative capabilities of the Bank's employees, including:

- 1) Sponsoring the industrial platform to promote local content B2B- Federation of Kuwaiti Industries.
- 2) Participating in the “Let’s Be Aware” campaign conducted by the Central Bank of Kuwait and Kuwait Banking Association to raise awareness among customers.
- 3) Preparing a vaccination campaign to receive the vaccine against Corona virus.
- 4) Honoring the medical staff who contributed to the vaccination campaign against Corona virus for the bank’s employees.
- 5) The bank continues to provide the necessary masks, gloves and sterilizers for the bank’s employees and customers.
- 6) The bank continues to assist its clients, and, in accordance with the directives of the government and the Central Bank of Kuwait during the repercussions of the Corona virus crisis, the financing installments due from the clients of the Industrial portfolio for small projects have been postponed for an additional six months, starting from 1/11/2021 until 30/04/2022. Postponement has been announced on social media.
- 7) Participating in a documentary program prepared by Al-Qabas newspaper, in cooperation with Kuwait Banking Association, regarding 80 years of Kuwaiti banking career.
- 8) Participating in the electronic banking magazine issued by Kuwait Banking Association in the context of the interest of the Industrial Bank of Kuwait in initiatives that would contribute to achieving progress and prosperity for the State of Kuwait.
- 9) The Bank’s contribution to the activities of the Red Crescent Society for social responsibility projects within the State of Kuwait.
- 10) The Bank’s participation in publishing electronic “banking illuminations” publications in cooperation with the Institute of Banking Studies in order to spread banking and financial awareness among members of society.
- 11) The Industrial Bank of Kuwait was keen to make an awareness video that carries the message of how to provide a healthy environment for employees, customers and visitors to the bank during the Corona virus crisis, in addition to providing awareness posters to avoid the spread of the virus and adhere to all health requirements and measures.

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 under the guidelines of the Central Bank of Kuwait. The Risk management Department's objectives, in coordination with business lines are:

- To identify the Bank's material risks, financial and non-financial.
- 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 and transfer through the insurance risks that cannot be managed internally.
- To manage security and cyber risks.
- To promote a culture of risk awareness throughout the organization.

Risk Management Structure:

The responsibility for risk management resides at all levels within the Bank, from the Board and the executive level down through the organization to each business manager and risk specialist documented in detail through policies and procedures and available to all staff through an online shared system. In a three-eye approach, the responsibilities for effective review and challenge reside with managers of departments as the primary risk holders, an independent risk management department and, internal audit.

For effective corporate governance, the Chief Risk Officer assists the Board Risk Committee to guide and oversee effective risk management across the Bank. Risk Management also assists the Board of Directors in tasks required by the Board Committees.

The Board is responsible for approving risk appetite, which is the level of risk tolerance that the Bank chooses to accept in pursuit of its business objectives. The risk appetite is reviewed annually by the Board Risk Committee so that it is in synchrony with the economic environment and internal strategic objectives.

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

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

The Board Risk Committee monitors through the risk management department, the Bank's risk profile against the risk appetite documented quantitatively and qualitatively in the risk appetite policy, providing benchmarks

for high-level oversight and supervision of the management of risks. The Risk Committee reviews the constituents of the detailed risk appetite statement annually. Where actual performance differs from expectations, the actions being taken by management are reviewed to ensure that the Committee is comfortable with them.

The Committee receives regular and comprehensive reports on the Bank's risk profile, an assessment on all risk factors, key issues affecting each business portfolio, risk measurement methodologies and future risk trends.

The Board Risk Committee ensures that appropriate policies and procedures exist to manage risks in a professional and 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 analysis 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: The year 2021 was still far from usual with the fears of pandemic still looming in the banking industry. The oil prices regained the lost momentum with certain gains and financial markets around the world transpired to signs of revival.

However, the manufacturing and supply chains were still under the pressure of pandemic. The CBK guidelines which were issued for maintaining the lower levels of capital and liquidity ratios, were allowed to continue even during FY2021 & FY2022 with marginal increase in the minimum ratios. The CBK continued the discount rate at 1.50% for FY21, expecting an early economic recovery.

The investment portfolio was adversely affected during the early pandemic period but retraced itself as markets recovered. As per IFRS9 rules, as investment valuation losses are booked straight into Profit and Loss (P&L) account, P&L was affected but recovered later as the market valuations improved. The measures which were taken in FY20 with respect to business continuity and resilience were kept on stand-by during FY21, since the fears of pandemic were far from over.

Risk Rating by External Rating Agencies:

During 2021, 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
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	Negative
Sovereign Foreign Currency Long Term IDR	Negative
Sovereign Local Currency Long Term IDR	Negative

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 2021 with a 'Stable' outlook. Their summary rating is as follows:

Fitch Ratings Foreign Currency	
Foreign Currency Long-term	A+
Foreign Currency Short Term	A1
Financial Strength	bbb+
Support	3
Outlook – Foreign Currency	Stable
Outlook – Financial Strength	Stable

Basel III Pillar 3 Consolidated Disclosures:

Overview of Basel III and Pillar 3:

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

- Pillar 1 covers the calculation of risk-weighted assets for credit risk, market risk and operational risk.
- Pillar 2 allows firms and supervisors to take a view on whether the firm should hold additional capital to cover the three Pillar 1 risk types, or to cover other risks. A firm's own internal models and assessments support this process which is interactive between the Bank and its regulator, the Central Bank of Kuwait.
- Pillar 3 covers external communication of risk and capital information by banks.

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

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

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

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

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

Capital Risk Management:

Capital adequacy is the degree to which capital resources on the Bank's balance sheet are sufficient to cover the businesses' capital requirements now and in the foreseeable future.

The Group's permission to operate as a bank is dependent upon the maintenance of adequate capital resources. Capital risk management is the process for reviewing capital requirements to enable the Bank to:

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

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

The Bank's capital management considers both economic and regulatory capital. Regulatory capital requirements are calculated on the basis of Pillar 1 risks of the Basel framework. Pillar 1 capital covers credit, market and operational risks.

The calculation methods and risk weights are specified by Basel III rules. Pillar 2 capital can also be held against the three risk types above, but mainly covers other types of risk. Being an industrial bank with a focused but restricted mandate, a significant weight is given to Concentration Risk.

The Bank uses its own internal capital framework and stress testing processes to help determine its capital requirements under stressed scenarios. The Bank ensures that it maintains sufficient buffers above regulatory minima at all times.

The adequacy of these buffers is assessed by Risk Management and presented periodically to the Board Audit and Risk Management Committee as part of the Capital Management Policy, the risk governance process, the risk appetite review process and the stress testing process.

The Bank's stress testing process forecasts the projected capital requirements and resources in a range of stress scenarios.

This enables the Bank to ensure it can meet its minimum regulatory capital requirements in a stressed environment, and to assess that there is adequate buffer above regulatory capital to meet economic capital needs if trigger points are approached. The stress testing process forms a key component of the internal capital adequacy assessment process (ICAAP).

For Pillar I regulatory capital adequacy calculations, the Bank has adopted the Standardized approach of Basel III, as recommended by the Central Bank of Kuwait in determining the capital required for each component of credit, market and operational risk. As the Bank is a specialized development bank which also offers commercial banking facilities to its customers, it has long term support from the Government of Kuwait.

This, together with its significant disclosed reserves, makes its available capital substantially in excess of the minimum requirements of Basel III even after taking into account the additional requirements of ICAAP under the new Pillar II and buffers determining economic capital.

With the planned expansion of the asset portfolio as per the Bank's three year strategic plan, the capital adequacy ratio is expected to remain substantially above minimum regulatory requirements and economic capital estimates in the foreseeable future.

This strong capitalization provides a cushion against low diversification opportunities due to the government mandate to service and develop the industrial sector in Kuwait. The overall capital adequacy ratio based on Basel III, was 48.58% as on December 31 2021.

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 (KIPCO), a Kuwaiti closed shareholding company, 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, 2021 (All figures in KD’000)

Total Tier - 1 Capital			275393
Capital			20,000
Reserves:			
	Legal reserves	42176	
	Voluntary reserves	146466	
	Fair value reserve	0	
	Retained Earnings	66751	255393
Total Tier - 2 Capital			7016
General Provision as allowed			7016
Total eligible capital after deductions			282409

Capital Structure Disclosure - 31st December 2021 (Sheet 2)			
(All Values in KD '000)			
Sr No	Asset Categories	Net Credit Risk Exposure (After CRM)	After CRM Risk Weighted Assets
1	Cash Items	155	0
2	Claims on Sovereigns	73688	0
3	Claims on International Orgns	0	
4	Claims on PSE	0	
5	Claims on MDB	0	
6	Claims on Banks	241816	48386
7	Claims on Corporates	352805	352805
8	Claims on Securitized Assets	0	0
9	Credit Derivative Claims	0	0
10	Regulatory Retail	0	0
11	Past Due Exposures	86	86
12	Other Exposures	160043	160043
	Total Exposure	828593	561320
	Less General Provision		(36546)
	Total Credit Risk Exposure		524774
	Minimum Capital Requirements for Credit Risk		68221
Capital Requirements for Market Risk			
	Total Market Risk Weighted Exposure		4877
	Minimum Capital required		634
Capital Requirements for Operational Risk			
	Total Operational Risk Weighted Exposure		51730
	Minimum Capital required		6725
	Total Risk Weighted Exposure		581381
	Total Min Capital requirement (Cr Risk + Mkt Risk + Op Risk)		75580
	Eligible Tier - 1 Capital		275393
	Eligible Tier - 2 Capital		7016
	Total Eligible Capital		282409
	Unused Capital		206829
	Capital Adequacy Ratio as per Basel - III		48.58%
	Capital Adequacy Ratio based on Tier - 1 capital		47.37%
	CET - 1 Capital Adequacy Ratio		47.37%

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: $\text{Leverage ratio} = \frac{\text{Capital measure}}{\text{Exposure measure}} (\%)$. For Kuwait the minimum regulatory leverage ratio is 3%.

IBK Leverage Ratio December 31, 2021 –Consolidated

S. No.	Item	Leverage ratio Framework (KD ‘000)
On-balance sheet exposures		
1.	On-balance sheet items	742138
2.	(Amounts of assets deducted when calculating the T1 of the capital)	0
3.	Total On-balance sheet exposures	742138
Derivative Exposures		
4.	Gross Exposure (including the amount of additional factor)	11664
5.	(Adjustments)	11547
6.	Total derivative exposures	117
Securities financing transaction exposures		
7.	SFT Assets	0
8.	Total securities financing transaction exposures	0
Off Balance sheet items		
9.	Commitments	120577
10.	(Adjustments for conversion to credit equivalent amounts)	(96462)
11.	Total Commitments	24115
12.	Contingencies	78398
13.	(Adjustments for conversion to credit equivalent amounts)	(42322)
14.	Total Contingencies	36076
15.	Total Off Balance sheet items	60308
Capital & Total Exposures		
16.	Tier 1 Capital	275393
17.	Total Exposures	802446
Leverage Ratio		
18.	Basel III Leverage Ratio	34.32%

Credit Risk Management:

Credit risk is the risk of suffering financial loss should any of the Bank's customers or market counterparties fail to fulfill their contractual obligations to the Bank. The granting of credit is one of the Bank's major sources of income and, as the most significant risk; the Bank dedicates considerable resources and energy to control it. The credit risk that the Bank faces arises mainly from project finance and working capital finance. The Bank is also exposed to other credit risks arising from its treasury activities, including debt securities, settlement balances with market counterparties and available for sale assets.

The role of the risk management department is to provide bank-wide direction, independent risk assessment, oversight and challenge of credit risk-taking. The Bank has dedicated departmental credit policies reviewed by a committee for policies and procedures (where the CRO is a member). The Board of Directors approves the credit risk control framework, which provides a structure within which credit risk is managed together with supporting risk management departmental policies.

Loans and advances to customers provide the principal source of credit risk to the Group although the Bank can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Bank's risk management policies and procedures are designed to identify and analyze risk, to set appropriate risk appetite, limits and controls, and to monitor the risks, delinquency, adequacy of follow up and rating assessments.

The risk management department independently reviews and rates all individual credit proposals generated by the two credit granting departments, relating to project finance and commercial, working capital and trade finance. It also quantifies reviews and monitors the quality and movement of the overall credit portfolio of the Bank.

One area of particular review is concentration risk. A concentration of credit risk exists when a number of customers belong to the same group, or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other business conditions. As a result, the Bank constantly reviews its concentration in a number of areas including, for example, geography, maturity, industrial sector and group control.

Diversification is achieved through setting maximum exposure guidelines to individual counterparties not exceeding 15% of capital. However, given the specific mandate to operate within the industrial sectors, concentration risk is on the higher side.

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

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

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

At both the departmental level as well as the overall bank level, disciplined credit processes are in place. The processes are intended to ensure that risks are accurately assessed, properly approved and continuously monitored. The primary tool for managing credit risk is a set of credit policies and procedures that are periodically reviewed and updated.

A stringent approval framework exists in the Bank which mandates a rigorous and thorough evaluation of the creditworthiness of every obligor. All credit and investment proposals and their extensions and renewals of existing credits are assessed by Risk Management.

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

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

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

Information related to credit exposures

Past Due / Impaired Assets and Provisioning

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

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

(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 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 31.12.2021		
Past Due Category	Outstanding amount (KD '000)	% of Total Past Dues
0 ≤ 30	4843	66.03%
31 ≤ 90	2405	32.80%
91 ≤ 180	0	0.00%
181 ≤ 364	86	1.17%
1 year (365) ≤ 3 year	0	0.00%
Above 3 years	0	0.00%
Total	7334	100%

The ratio of Non-Performing Loans (NPL) to credit exposure stood at 0.027% as on 31.12.2021.

(iv) loan Loss Provisions as per International Financial Reporting Standards (IFRS-9):

According to CBK guidelines credit loss provisions are calculated based on IFRS9-CBK criteria, as well as CBK's existing criteria as explained above. The higher of the two applies.

According to the IFRS9 method, the Bank is required to maintain provisions for performing credits in Stage 1 where credits are not impaired. However, there are three staging levels/criteria in the process. The placement in

a stage classification depends on multiple factors, i.e. the credit rating, class probability of default, delinquency record and other information of significant rise in credit risk.

The objective is to have a forward-looking statistical estimate of loan loss provisions. The Bank uses its internal credit rating system and classification system to model credit risk to and calculate the probabilities of default.

This is then used in the model with the Loss Given Default rate (1 minus the recovery rate) and the Exposure at Default.

IFRS-9 Stage 1 is for performing and regular credits. Stage 2 is for credits where the risk levels have risen and as per CBK, the company is at least 30 days of delinquent.

Stage 3 is where there is significant rise in credit risk and as per CBK at least 90 days delinquent. Customer lists classified as per IFRS9 Staging criteria are submitted to the Bank's Provisions Committee and IFRS-9 data is reported to the Central Bank of Kuwait.

As the Bank has maintained more provisions as per the traditional CBK method, and as the higher of the two methods applies, the Bank has continued to make provisions based on the CBK method as described above.

B. Sovereign Exposures:

The Bank has a minimal sovereign exposure 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 31.12.2021 (All figures in KD'000)

Disclosure on Total Credit Risk Exposure (Funded & Non - Funded)			
Asset Category-wise Report: 31.12.2021			
Asset Category	Funded Credit Risk Exposure	Non - Funded Risk Exposure	Total Credit Risk Exposure
Cash Items	155	0	155
Claims on Sovereigns	73688	0	73688
Claims on International organizations			
Claims on PSEs			
Claims on MDBs			
Claims on Banks	241699	117	241816
Claims on Corporates	305590	48294	353884
Claims on Securitised Assets			
Credit Derivative claims			
Regulatory Retail			
Past Due Exposures	86	0	86
Other Assets	148146	11897	160043
Total Credit Risk Exposure	769364	60308	829672

Geographical Distribution of Exposures as on: 31 st December, 2021 (All figures in KD ‘000’)												
Geography	Total Loans and Advances				Loans & Advances- Industrial Loan				Loans & Advances-Commercial Facilities			
	December 2021		December 2020		December 2021		December 2020		December 2021		December 2020	
Kuwait	399475	100%	397824	100%	148685	100%	150670	100%	250789	100%	247154	100%
Others	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Grand Total	399475	100%	397824	100%	148685	100%	150670	100%	250789	100%	247154	100%
Residual Maturity of the Loans and Advances Portfolio as on 31 st December, 2021 (Figures in’000)												
#	Total Portfolio				Industrial Loan at encouraged rates				Loans & Advances at Commercial rate			
	December 2021		December 2020		December 2021		December 2020		December 2021		December 2020	
Up to 1 Month	95188		34114		39301		29470		55887		34166	
1 to 3 Month	54751		80680		3232		4943		51519		75738	
3 to 12 Month	82198		71063		19582		22321		62616		48742	
Over 1 Year	136777		133133		121400		112447		15377		20685	
Balance at Year end	368914		318990		183515		169181		185399		179331	
Loans and Advances Portfolio by Sector as on 31 st December, 2021 (Outstanding Balances in KD’000)												
Sector	2020				2021							
	Outstanding Balance (‘000)		As a % of Total Exposure		Outstanding Balance (‘000)		As a % of Total Exposure					
Chemicals	14959		3.76%		16137		4.04%					
Food & Beverages	21138		5.31%		35507		8.89%					
Metal Products & Engineering	156460		39.33%		160955		40.29%					
Construction & Building Material	83334		20.95%		85290		21.35%					
Furniture	5199		1.31%		4262		1.07%					
Textile	608		0.15%		445		0.11%					
Paper & Printing	9705		2.44%		9698		2.43%					
Government	0		0.00%		0		0.00%					
Oil and Gas	102723		25.82%		84375		21.12%					
Agriculture and Fishing	0		0.00%		0		0.00%					
Others (Non-Financial)	0		0.00%		0		0.00%					
Total Non-Financial Sectors	394126		99.07%		396669		99.30%					
Financial Sectors	3698		0.93%		2805		0.70%					
Total Sectors	397824		100.00%		399474		100.00%					
Impaired Loans – Geographical Distribution as on 31 st December, 2021 (All figures in KD ‘000)												
Geography	2021		2020		2021		2020					
	Outstanding loans				Provision provided for impaired loans							
Kuwait	86		1024		0		1024					
Other GCC countries	0		0		0		0					
Grand total	86		1024		0		1024					
Impaired loans as a percentage of outstanding loans portfolio	0.027%		0.32%									
Coverage percentage					0.00%		100.00%					

Credit risk mitigation

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

Collateral Valuation and Management: In cases where collateral is to be taken, the Bank accepts standard collateral types such as cash, chattel mortgage over movable assets, mortgage over fixed assets, personal / corporate/ bank guarantees etc. In the case of mortgages, the Bank insists on being named the loss-payee in the related insurance policy.

Where guarantees are taken, the Bank satisfies itself of the creditworthiness of the guarantor by obtaining full financial information about the guarantor, on the rationale that the Bank views the guarantor as though he were himself the primary obligor who would himself have to be eligible for the size of the commitment. In respect of bank guarantees, a formal guarantor line for the bank concerned is a pre-requisite.

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

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

Credit Exposure after Credit Risk Mitigation (CRM) and credit conversion factor: 31.12.2021 (All figures in KD '000)			
Asset Categories	Credit Exposure before CRM	Credit Exposure after CRM	Credit Risk Weighted Assets
Cash Items	155	155	0
Claims on Sovereigns	73688	73688	0
Claims on International organizations			0
Claims on PSEs			0
Claims on MDBs			0
Claims on Banks	241816	241816	48386
Claims on Corporates	353884	352805	352805
Claims on Securitised Assets			
Credit Derivative claims			
Regulatory Retail			
Past Due Exposures	86	86	86
Other Assets	160043	160043	160043
Total Credit Risk Exposure	829672	828593	561320

IFRS9 - EXPECTED CREDIT LOSSES - STAGewise - AS ON 31.12.2021		
Stages	Exposure at Default (EAD) (KD '000)	Expected Credit Loss (ECL) (in KD '000)
Stage - 1	363344	1516
Stage - 2	139256	3670
Stage - 3	30639	17378
TOTAL	533239	22564

Market Risk Management:

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

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

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

The focus at IBK is on industrial lending and on corporate banking. The Bank has a long term investment in its wholly owned subsidiary (KIPCO) which invests in the local market and has a non-traded Kuwaiti equity portfolio.

There is also an international component in the Bank's equity book which is invested in start-up ventures through reputed international managers. These investments are of long term nature and are exposed to the downside risk of direct equity investments.

These investments are diversified and individual investments are capped within limits. The Bank is not actively involved in equity or bond trading, trading in derivative products, options, commodities or most of the other market risk generating activities that commercial/investment banks usually engage in.

Market risk is monitored taking into consideration market analysis, market liquidity, 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		
Disclosure on Market Risk - Capital Requirements as on 31.12.2021		
(All figures in KD '000)		
Type of Risk	Risk Weighted Exposure	Minimum Regulatory Capital Requirement
Interest Rate Risk	0	0
Equity Position Risk	0	0
Foreign Exchange Risk	4877	634
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 (KIPCO), a wholly owned subsidiary of the Industrial Bank of Kuwait, whose financial statements are consolidated with those of the Bank.

Strategic investments are those that fit in with the Bank's objectives of long term industrial development and expected to benefit the Bank in terms of reach and network presence.

Strategic investments in equities may be made to ensure growth and development of existing companies, investment in new ventures as well as to exercise control over companies which have turned severely delinquent and are underperforming and thus have to be taken over. Equity investments may be made by KIPCO as pre-IPO placements or may be made directly through the stock exchange for listed companies.

Since these are long term investments, this is a passive investment portfolio with valuations subject to the movements of the market. Following world and regional trends, the Kuwait Stock Exchange index continues to witness high volatility.

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

Differentiation is made between the component of the portfolio which has been made with the objective of making capital gains and those that have been made for strategic reasons mentioned above. It is recognized that equity investments carry considerable downside risk as well as expectation of high returns.

Risk Management rates all investments made by the Direct Investments and Promotions department using a rating methodology for private equity developed internally by the risk management department.

Interest Rate Risk Management:

The overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net Interest Income. Interest rate risk is measured as the potential volatility in Net Interest Income caused by changes in market interest rates.

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its earnings caused by re-pricing mismatches between rate sensitive assets, liabilities and off balance sheet positions.

The Bank has received a 20 year loan from the Government of Kuwait (initiated in 1973 and rolled over) which is partly priced at the fixed rate of 1/2 % per annum to the extent of the total industrial loans and commitments made by the Bank. In 2007, this was extended by another KD 100 million by the Government. This low-cost source is a very important component of the Bank's total cost base.

The Bank engages in subsidized fixed rate lending to the industrial sector. To that extent, fixed cost sources and applications of funds are outside the framework of interest rate risk calculations.

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

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

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

Counterparty Credit Risk

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

Industrial Bank of Kuwait	
Disclosure on Counterparty Credit Risk as on 31st December, 2021 (All figures in KD '000)	
Description	Total Weighted Value (KD '000)
Notional Exposure of Foreign Exchange Forward Contracts	11664
Positive MTM	0

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, 2021			
Currency (Kuwaiti Dinar) (All figures in KD '000)			
	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	338934	105255	21475
Interest Bearing Liabilities	2533.03	6.6	251391
GAP	336400.97	105248.4	(229916)
Cumulative GAP	336400.97	441649.37	211733.37
Sensitivity to 1% interest rate change in the next 1 year			2117.33

Interest Rate Sensitivity – 31 st December, 2021 (Foreign Currency: USD)			
(All figures in KD '000)			
	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	10367.5	0	0
Interest Bearing Liabilities	93524.58	10291	0
GAP	(83157.08)	(10291)	0
Cumulative GAP	(83157.08)	(93448.08)	(93448.08)
Sensitivity to 1% interest rate change (in KD terms, after conversion)			(934.48)
Overall Interest Rate Sensitivity (Combine Position) for 1% Interest Rate Change			1182.85

Liquidity Risk Management:

Liquidity risk is the risk to earnings or capital arising from a bank's inability to meet its obligations or commitments to a customer, creditor, or investor as they fall due without incurring unacceptable losses. It generally arises from a failure to recognize or address changes in market conditions that affect the ability to liquidate assets (i.e. convert them to cash) quickly and with minimal loss in value.

The primary objective for IBK is to ensure that the Bank has sufficient liquidity to meet its obligations in both normal and stressed conditions without having to make emergency and unplanned sales of assets or be forced to borrow expensive funds under emergency conditions.

The Board has established an appropriate liquidity policy for the management of the Bank's funding and liquidity management requirements. The Bank's Assets and Liability Committee (ALCO) oversees the implementation of the liquidity policy and risk management plays an active role with the CRO being a part of the Committee and the risk management department performing a risk-monitoring role.

The Bank's senior management manages liquidity risk effectively in the context of the Bank's business plan and long-term funding strategy, taking into account prevailing economic and financial conditions and currency needs. To this end, the Board has set limit and tolerance levels for its liquidity risk appetite which is monitored by risk management and reported regularly to the Board Risk Committee.

The Bank through its Treasury Department manages liquidity risk on a continuous basis within established liquidity risk management policies and limits. This involves monitoring and managing several liquidity metrics, a portfolio of high quality liquid assets, reserves, and the continuous monitoring of forecast and actual cash flows together with institutional relationships as funding sources.

In addition, the Bank uses liquidity ratios (LCR, NSFR) and liquidity scenarios, regular and stressed together with volatility tracking, as key metrics to establish its liquidity risk tolerance levels, which are built into the risk appetite statement. These metrics measure the Bank's ability to fulfill all its payment obligation stemming from ongoing business operations under various scenarios.

The Bank's Treasury Department is responsible for maintaining effective communication channels within the Bank's operational and business areas to alert the funding desks of imminent funding requirements including loan drawdowns, deposit withdrawals and off balance sheet commitments. Business departments provide Treasury with their forecasts and actual trends within ALCO.

The Risk Management function periodically reviews liquidity risk policies and procedures and the adequacy of these policies and the overall liquidity management process. It also monitors and reports adherence to the various liquidity ratios and limits, both internal and regulatory on a regular basis. It also monitors asset liability gaps and adherence to limits.

A strong plus in the term structure of funding is the long-term loan from the government available on a roll over basis that funds the long-term developmental finance provided by the bank, which obviates the need to use short-term liabilities to fund long term assets, thus covering risks. The Bank maintains excess liquidity in the form of cash and unencumbered high-quality liquid securities that together serve as the Bank's primary means of liquidity risk mitigation.

Stress Testing

The Bank's Liquidity management policies and limits ensure that liquidity is maintained at sufficiently comfortable levels to support operations and meet payment demands even under stressed market conditions. Stress testing is integrated into the Bank's liquidity risk management and assesses the Bank's ability to generate sufficient liquidity under extreme conditions and is a key input when defining liquidity targets and limits.

Other Qualitative Information

The Liquidity Coverage Ratio (LCR) is a Basel III metric that measures the sufficiency of High-Quality Liquid Assets (HQLA) available to meet net short-term financial obligations over a thirty-day period in an acute stress scenario. HQLA are assets which can be easily and immediately converted into cash at little or no loss of value. In December 2014, CBK released the final guideline on "Liquidity Coverage Ratio Disclosure Standards", requiring banks to disclose the LCR ratio beginning in Q1, 2016. LCR is disclosed using CBK's template and is calculated using the average of daily positions during the quarter.

The LCR report for the Bank is prepared in accordance with the public/market disclosure requirements and guidelines in respect of the Liquidity Coverage Ratio Disclosure Standards as published by Central Bank of Kuwait (CBK) in December 2014.

The Net stable funding ratio (NSFR) is designed to promote medium and long-term stable funding of the assets and off-balance-sheet activities over a one-year time horizon. Effective January 2022, Central Bank of Kuwait (CBK) has increased minimum LCR and NSFR levels from 80% to 90% for both the ratios.

As at 31 December 2021, the Industrial Bank of Kuwait's short term Liquidity Coverage Ratio (LCR) and the longer term Net Stable Funding Ratio (NSFR) stood at well above 80%, at 346.34% and 146.09% respectively. Thus, the Bank is in a good position to manage any short-term funding stress should they arise.

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 31.12.2021 is as under:

Group	ID	Description	Values	Values After Flow Rates
HIGH QUALITY LIQUID ASSETS	1	Total High Quality Liquid Assets (Before Revisions)		76449
CASH OUTFLOWS	2	Retail Deposits And SMES:	22909	4734
	3	> Stable Deposits		
	4	> Less Stable Deposits	16346	3386
	5	Other Unsecured Deposits And Funds From Wholesale Funding Excluding Deposits Of SMES Customers:	64176	47140
	6	> Operational Deposits		
	7	> Non-Operational (Other Unsecured Funding)	64176	47140
	8	Secured Funding		
	9	Other Cash Outflows, Including:	106410	29950
	10	> From Derivatives		
	11	> From Asset-Backed Securities And Commercial Papers		
		(Assuming Non-Feasibility Of Re-Financing)		
	12	> Committed Credit And Liquidity Drawbacks	106410	29950
	13	Other Prospective Future Funding Obligations	84509	4225
	14	Other Cash Contractual Outflows	48	48
	15	Total Cash Outflows		86098
	16	Secured Lending Transactions		
CASH INFLOWS	17	Cash Inflows From Performing Loans	508691	254345
	18	Other Cash Inflows	273	273
	19	Total Cash Inflow	508963	254618
LIQUIDITY COVERAGE RATIO	20	Total High Quality Liquid Assets (After Revisions)		76449
	21	Net Cash Outflows		21524
	22	Liquidity Coverage Ratio		355.39%

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: 31.12.2021 (All values in KD '000)						
Unweighted Values (before applying relevant factors)						
Sr	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	282409				282409
3	* Other Capital Instruments	-	-	-	-	-
4	Retail Deposits and Deposits from small business customers :					
5	* Stable Deposits	-	-	-	-	-
6	* Less Stable Deposits	7871	988	113	66	998
7	Wholesale funding:					
8	* Operational Deposits	-	-	-	-	-
9	* Other wholesale funding	15246	28737	31763	346592	366378
10	Other Liabilities:					
11	* NSFR Derivative Liabilities	-	-	-	-	-
12	* All other liabilities not included in the above categories	122609	11051	-	-	-
13	Total ASF	428134	40776	31876	346598	649784
Required Stable Funding (RSF):						
14	Total NSFR high - quality liquid assets (HQLA)	73587	-	-	-	3513
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing Loans & Securities:					
17	* Performing Loans to financial institutions secured by Level 1 HQLA	10650	209000	0	0	20900
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:	1099	100463	60145	160218	240522
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	-	-	-	-	-
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	-	5105	-	173373	175925
30	Off - Balance Sheet Items	-	78398	-	-	3920
31	Total RSF	85335	392966	60145	333591	444780
32	NSFR (%)					146.09%

Operational Risk Management:

Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and systems. Operational risks are inherent in the Bank's operations. Major sources of operational risk include: operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts.

The Bank is committed to the identification, measurement and management of operational risks. Such risks are managed through bank-wide or line of business specific policies and procedures, controls, and monitoring tools. A critical element is the identification of business specific Key Risk Indicators (KRIs) and their monitoring across business lines. In particular, Risk Management has worked closely with business units and implemented improved management approaches for operational risk, including self-assessment formats and surveys, to focus on critical risk areas, to strengthen control, and minimize operating losses.

The Bank's operational risk management framework aims to:

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

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

Information Technology 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, IBK 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 amount of capital charge for operational risk for FY2021 is: KD 6.725 Million.

Industrial Bank of Kuwait	
Disclosure on Operational Risk (Using Standardized Approach) as on 31st December, 2021	
Description	Value(KD '000)
Total Operational Risk Weighted Assets	51730
Total Capital Charge	6725
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/RBA/432/2019) and Law No. 106 of 2013 and subsequent amendments which have been designed to combat money laundering.

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

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

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

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

The Bank's Remuneration Policy is designed to attract and retain highly qualified, skilled, and knowledgeable professionals and incorporates all the requirements of the CBK as mentioned within its corporate governance instructions. The Policy includes all necessary aspects and components of financial remuneration taking into account reinforcing the Bank's performance objectives and effective risk management. The Bank's Remuneration Policy incorporates all the requirements of the CBK as mentioned within its corporate governance instructions. The Bank's Board, based on the Board Nominations and Remuneration Committee (NRC) recommendations, approves and modifies the Bank's remuneration policy and its design, and reviews the process of its implementation to ensure that it is operating as intended.

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

The employee remuneration components are:

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

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

The performance-based incentives (STI and LTI) are designed to motivate and reward the employees to achieve the goals and objectives of the Bank as per the strategy and annual plans of the Bank. Performance based incentives are disbursed as an annual cash bonus for all staff (STI) and deferred cash bonus for the senior staff (LTI). The incentive schemes are linked with a balanced mix of performance indicators at the corporate level, department / unit level and the employee level.

The primary goal of the STI is to align the incentive with the Bank's annual performance and individual contributions. The LTI for the senior staff is designed to encourage sustainable and risk adjusted long term performance of the Bank. The LTI scheme is applicable from 2015 onwards.

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

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

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

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

The NRC conducts regular revision of Remuneration Policy and makes recommendations on any updates to the Board. It carries out regular evaluation of the sufficiency and effectiveness of Remuneration Policy to ensure alignment with Bank's objectives. It makes recommendations to the Board regarding the level and components of the remuneration of the CEO and his direct reports as well as the Bank's executive staff. It works closely with the Bank's Risk Committee and the CRO in order to evaluate the incentives proposed by the remuneration system.

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

Risk Assessment:

The main business of the Bank is in the nature of a combination of development and commercial banking supplemented by an investments portfolio. It also manages two government funded portfolios related to small scale industry and handicrafts and agricultural financing. It is risk management department's assessment that the remuneration policy of the bank evenly weights the long and the medium term results and this is well documented and recorded in the new performance appraisal system (PMS) through a SMART process (Specific, Measurable, Achievable, Relevant and Time based) through detailed and quantified KPIs (Key performance indicators), continuous performance monitoring and coaching, periodic reviews and final performance based on financial results as well as defined qualitative objectives. Senior management is judged by the Remuneration Committee on a distribution and combination of return on investment, defined risk measures including CAMEL-BCOM components, and business elements.

The Bank took measures to ensure that no material risk taker or the senior management approached areas for short term gains such as financial market trading or areas subject to high risk and potential reward or indulged in excessive risk taking. All proposals of the Bank and the overall portfolio of the Bank was assessed independently by risk management and reported to the Board Risk Committee.

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

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

Variable remuneration for senior staff has short term and long term components. The long term component is vested after 3 years from the date of granting. The vesting amount may increase or decrease according to the 3 year average performance in terms of EPS and risk measures.

The Bank has only cash based variable remuneration and does not provide stock options or shares. Corporate performance targets have a ROE weight of 40%, asset portfolio performance of 30% and risk rating measure of 30%, as designed by E & Y consultants. All staff of the Bank is eligible for performance based variable incentives. Only senior management and staff 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 DCEOs. Reporting to the CEO, is the DCEO – Development Finance, the DCEO – Commercial Banking and Investments. Material risk takers include the heads of revenue generating business departments which are Project Finance, Commercial Banking, Direct Investments, and Treasury. Included under the control departments is the Chief Risk Officer, Head of Internal Audit, Head of Financial Control Unit, Head of AML, Head of Accounts and the Compliance officer.

Remuneration paid in 2021 (in KD)

Category 1: 3 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
445,606	7,592	19,995

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
-	280,872	-

Category 2: 5 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
298,916	8,808	34,425

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
-	86,111	-

Category 3: 6 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
304,533	7,359	12,049

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
-	89,806	-

Consolidated Financial Statements and Independent Auditor's Report

For The Year Ended 31 December 2021

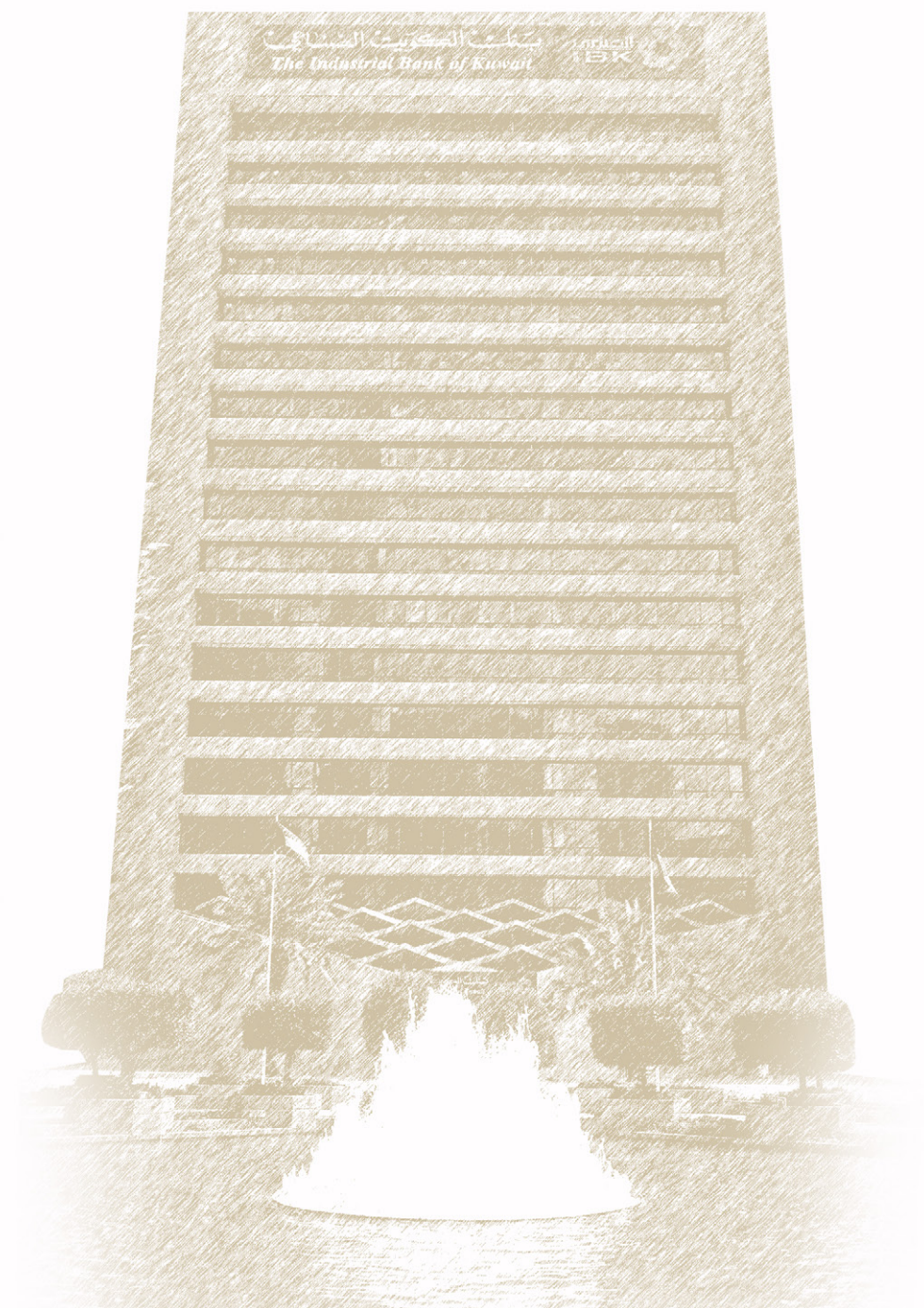


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Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Industrial Bank of Kuwait K.S.C.C. (the “Bank”) and its subsidiaries (together, the “Group”), which comprise the consolidated statement of financial position as at 31 December 2021, and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by the Central Bank of Kuwait for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (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 Matter

The financial statements of the Group for the year ended 31 December 2020 were audited by another auditor, who expressed an unmodified opinion on those statements on 21 June 2021.

Other information included in the Annual Report of the Group for the year ended 31 December 2021

Management is responsible for the other information. Other information consists of the information included in Annual Report of the Bank for the year ended 31 December 2021, other than the consolidated financial statements and our auditors’ report thereon. We have obtained the report of the Bank’s Board of Directors, prior to the date of our auditor’s report, and we expect to obtain the remaining sections of the Group’s Annual Report for the year ended 31 December 2021 after the date of our auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be

materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement in 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 IFRSs as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate 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 have obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014, and its amendments, and 2/B.S. 342/2014 dated 21 October 2014, and its amendments, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014, and its amendments and 2/B.S. 342/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.



SHEIKHA AL FULAIJ

LICENCE NO. 289 A

EY

AL-AIBAN, AL-OSAIMI & PARTNERS

26 April 2022

Kuwait

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 KD'000	2020 KD'000
Assets			
Cash and cash equivalents	3	61,198	23,702
Treasury bills and bonds	4	70,179	75,684
Deposits with banks and other financial institutions		183,888	163,003
Financial assets at fair value through profit or loss	5	132,341	114,389
Investment carried at amortized cost	5	-	10,000
Loans and advances to customers	6	278,450	283,938
Investments in associates	7	6,935	6,386
Other assets		4,045	5,737
Property and equipment	8	5,103	5,540
Total assets		742,139	688,379
Liabilities			
Deposits from banks and other financial institutions		36,363	44,153
Deposits from customers		48,259	48,935
Other liabilities	9	29,380	15,311
Term loans	10	46,592	31,938
Loan from the State of Kuwait	10	300,000	300,000
Total liabilities		460,594	440,337
Equity			
Share capital	11	20,000	20,000
Treasury shares reserve		152	-
Statutory reserve	11	42,177	38,232
Voluntary reserve	11	146,466	142,521
Retained earnings		72,750	47,289
Total equity		281,545	248,042
Total liabilities and equity		742,139	688,379



Musab Salem Al Nisf
Chairman



Ali A. Khajah
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER

COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 KD'000	2020 KD'000
Interest income		15,864	18,800
Interest expense		(3,503)	(4,071)
Net interest income		12,361	14,729
Fee and commission income		4,382	3,924
Foreign exchange gain (loss)		3,605	(2,047)
Net investment income	12	31,915	17,233
Recoveries from loans written-off	6	10,192	612
Other income		83	752
Total income		62,538	35,203
Staff costs	13	(10,788)	(8,195)
Depreciation	8	(643)	(553)
Other expenses	14	(2,858)	(2,057)
Provision for credit losses	6	(8,768)	(13,231)
Other provisions		(35)	(548)
Total expenses		(23,092)	(24,584)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Board of Directors' remuneration and Zakat		39,446	10,619
Contribution to KFAS		(382)	(108)
Board of Directors' remuneration	15	(322)	(298)
Zakat		(391)	(108)
Net profit for the year		38,351	10,105
Other comprehensive income for the year		-	-
Total comprehensive income for the year		38,351	10,105
Basic and diluted earnings per share (KD)	16	19.176	5.053

The Industrial Bank of Kuwait K.S.C. (closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	Share capital KD'000	Treasury shares KD'000	Treasury shares Reserve KD'000	Statutory reserve KD'000	Voluntary reserve KD'000	Retained earnings KD'000	Total KD'000
Balance at 1 January 2021	20,000	-	-	38,232	142,521	47,289	248,042
Total comprehensive income for the year	-	-	-	-	-	38,351	38,351
Transfer to reserves (note 11)	-	-	-	3,945	3,945	(7,890)	-
Dividends for 2020 (note 11)	-	-	-	-	-	(5,000)	(5,000)
Purchase of treasury shares (note 11)	-	(3,163)	-	-	-	-	(3,163)
Redemption of treasury shares (note 11)	-	3,163	152	-	-	-	3,315
Balance at 31 December 2021	20,000	-	152	42,177	146,466	72,750	281,545
Balance at 1 January 2020	20,000	-	-	37,170	141,459	44,084	242,713
Total comprehensive income for the year	-	-	-	-	-	10,105	10,105
Transfer to reserves (note 11)	-	-	-	1,062	1,062	(2,124)	-
Dividend for 2019 (note 11)	-	-	-	-	-	(4,776)	(4,776)
Balance at 31 December 2020	20,000	-	-	38,232	142,521	47,289	248,042

The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.

The Industrial Bank of Kuwait K.S.C. (closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 KD'000	2020 KD'000
Cash flows from operating activities			
Net profit for the year before contribution to KFAS, directors' remuneration and Zakat		39,446	10,619
<i>Adjustments for:</i>			
Foreign exchange (gain) loss		(3,605)	2,047
Dividend income	12	(276)	(832)
Realised gain on financial assets at fair value through profit or loss	12	(26,540)	(11,724)
Unrealised gain on financial assets at fair value through profit or loss, net	5	(4,493)	(4,867)
Share of results from associates	7	(606)	190
Depreciation	8	643	553
Provision for credit losses, net	6	8,768	13,231
Other provisions		35	548
		13,372	9,765
<i>Changes in:</i>			
Treasury bills and bonds		5,505	23,923
Deposits with banks and other financial institutions		(20,885)	(38,037)
Loans and advances to customers		(3,280)	12,727
Other assets		1,692	337
Deposits from banks and other financial institutions		(7,790)	3,522
Deposits from customers		(676)	7,006
Other liabilities		16,430	(13)
Net cash flows from operating activities		4,368	19,230
Cash flows from investing activities			
Additions to property and equipment	8	(206)	(787)
Purchase of financial assets at fair value through profit or loss		(22,730)	(15,986)
Proceeds from disposal of financial assets at fair value through profit or loss		35,811	17,303
Proceeds from redemption of investment at amortized cost		10,000	5,000
Dividends received from associates	7	57	15
Dividend income received		276	832
Net cash flows from investing activities		23,208	6,377
Cash flows from financing activities			
Term loans obtained		31,266	-
Term loans paid	10	(16,498)	(15,293)
Purchase of treasury shares		(3,163)	-
Proceeds from redemption of treasury shares		3,315	-
Dividends paid	11	(5,000)	(4,776)
Net cash flows from (used in) financing activities		9,920	(20,069)
Net increase in cash and cash equivalents		37,496	5,538
Cash and cash equivalents at 1 January		23,702	18,164
Cash and cash equivalents at 31 December	3	61,198	23,702

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

1. INCORPORATION AND ACTIVITIES

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 as a specialized bank and is regulated by the Central Bank of Kuwait ("CBK") to provide banking services to the industrial projects and investments in related activities and the bank is principally engaged in the following activities:

- ▶ 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, as amended; 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 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 2021 is 188 (2020: 181).

The consolidated financial statements of the Bank and its subsidiaries (together the "Group") (Note 2.5) were authorized for issue by the Board of Directors on 16 February 2022. The Annual General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis except for measurement of financial assets at fair value through profit or loss which carried at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Bank, rounded to the nearest thousand Kuwaiti Dinars, except when otherwise stated.

2.2 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendments:

- Expected credit loss ("ECL") to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures.

The above framework is hereinafter referred to as 'IFRS as adopted by CBK for use in the State of Kuwait'.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a risk-free rate ("RFR").

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to RFR. As a practical expedient, changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing profit rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

The Group is currently in the process of running a project on the Group's transition activities and prepared for adopting alternate reference rates and continues to engage with various stakeholders to support the orderly transition and to mitigate the risks resulting from the transition.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.4 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2022 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the Group's consolidated financial statements.

2.5 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank as at 31 December 2021 (the "reporting date") and its subsidiaries (investees which are controlled by the Bank) as at the same date or a date not earlier than one month from the reporting date. The Bank consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- ▶ Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee, and
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

subsidiary acquired or disposed of during the year are included in the Group's consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 BASIS OF CONSOLIDATION (continued)

Profit or loss and each component of the other comprehensive income are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill and intangible assets), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The subsidiaries of the Group are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Percentage of ownership	
			2021	2020
Senaey Enterprises Limited	Cayman Islands	Investments	100%	100%
Kuwait Industrial Projects Company K.S.C. (Closed) ("KIPC")*	State of Kuwait	Investments	99.6%	99.6%
Entities held through KIPC				
Al Rada Petrochemical Company K.S.C. (Closed)	State of Kuwait	Petrochemicals	96%	96%
Intermediate Petrochemical Products Company K.S.C. (Closed)	State of Kuwait	Petrochemicals	96%	96%
Derwaza Company for Construction, Managing and Leasing Warehouses	State of Kuwait	Leasing	100%	100%

*The Parent Company effectively owns 100% of equity interest of the above entity. Accordingly, the consolidated financial statements have been prepared on this basis. The ownership of the remaining equity interest in this subsidiary is registered in the name of related parties as nominees. However, the Parent Company is the beneficial owner of 100% equity interest.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of profit or loss or in other comprehensive income (OCI) in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the marketplace.

Classification and measurement

Initial classification and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the business model for managing the instruments and on their contractual cash flow characteristics. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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

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

Contractual cashflow characteristics

The Group also assesses the characteristics of the contractual cashflow of the financial asset to identify whether the contractual cashflow is Solely for purpose of Payment of Principal and Interest (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. The most significant elements of 'interest' within a lending arrangement are typically the consideration for the time value of money and credit risk. The Group also considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set during its assessment of the SPPI test.

If the contractual terms introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, the financial asset is required to be measured at FVTPL as the contractual terms do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

Subsequent classification and measurement categories of financial assets

The Group classifies all of its financial assets as either:

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

Financial asset carried at amortised cost:

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

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses, impairment and gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

Cash and cash equivalents, Treasury bills and bonds with CBK and others, due from banks and other financial institutions, loans and advances to customers, certain investment securities and certain other assets are classified as financial asset carried at amortised cost.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets carried at FVTPL

Financial assets carried at FVTPL is initially recorded in the consolidated statement of financial position at fair value. The financial assets classified under this category are either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as financial asset carried at FVTPL where even though it meets the classification criteria of financial asset carried at amortised cost or financial asset carried at FVOCI, this designation eliminates, or significantly reduces, the inconsistent accounting treatment that would otherwise arise. Such designation is determined on an instrument-by-instrument basis.

Financial assets carried at FVTPL are subsequently measured at fair value. The changes in fair value are recorded in the consolidated statement of profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income using the effective interest rate method, considering any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in the consolidated statement of profit or loss as other operating income when the right to the payment has been established. Certain debt securities, equities and derivatives that are not designated as hedging instruments are classified as Financial assets carried at FVTPL.

Subsequent classification and measurement categories of financial liabilities

Financial liabilities, other than financial guarantees and loan commitments, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Due to banks, due to other financial institutions, deposits from customers, other borrowed fund and certain other liabilities are classified as financial liabilities carried at amortised cost.

Financial guarantees and loan commitments

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 liability at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and the higher of ECL under IFRS 9 according to the CBK guidelines and provision required by the CBK instructions.

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

De-recognition

De-recognition of financial assets and financial liabilities other than substantial modification of terms and conditions

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

De-recognition (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

De-recognition of financial assets due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as loans and advances to customers, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

When assessing whether or not to derecognise a financing receivable, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

Collateral pending sale

The Group occasionally acquires non-monetary assets in settlement of certain financing receivables. Such assets are stated at the lower of the carrying value of the related financing receivables and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of profit or loss.

Impairment of financial assets

The Group records impairment of financial assets as follows:

Impairment of financial assets classified as credit facilities:

Impairment of financial assets classified as credit facilities is recorded as the higher of ECL on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by CBK instructions. Credit facilities consists of 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).

Impairment of financial assets other than credit facilities:

Impairment of financial assets other than credit facilities is computed under IFRS 9 in accordance to the CBK guidelines. These financial assets comprise of deposits with banks and equity investments are not subject to ECL.

Expected credit losses under IFRS 9 as per CBK guidelines

The Group has established a policy to perform an assessment at the end of each reporting period of whether there has been a significant increase in credit risk since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

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- 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 profit rate of the financing facility.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

The Group applies a three-stage approach to classify and measure the ECL on the financial assets classified as credit facilities, as described below:

Stage 1: 12-month ECL

For financial assets classified as credit facilities where there has not been any significant increase in credit risk since their initial recognition or those credit facilities which are determined to have a low credit risk at the reporting date, the Group classifies these facilities under Stage 1 and measures the loss allowance which is a result of defaults that are expected to arise over the next 12 months (12-month ECL) on these financial assets.

Stage 2: Lifetime ECL – not credit impaired

For financial assets classified as credit facilities where there has been a significant increase in credit risk since initial recognition but are not credit impaired, the Group classifies these facilities under Stage 2 and measures loss allowance which is a result of defaults that are expected to arise over the lifetime (Lifetime ECL) on these financial assets.

Stage 3: Lifetime ECL – credit impaired

For financial assets classified as credit facilities which are in default and credit impaired, the Group classifies these facilities under Stage 3 and measures loss allowance at an amount equal to 100% of net exposure i.e. exposure after deduction of eligible collaterals.

Staging of credit facilities

The Group continuously monitors all financial assets classified as credit facilities and applies a series of absolute thresholds and other criteria to determine the staging. All financial assets classified as credit facilities that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and are classified under Stage 2. All rescheduled credit facilities are classified under the Stage 2 unless it qualifies for Stage 3. The Group also applies other criteria to determine a significant increase in credit risk for financial assets, such as:

- Deterioration in the customer rating of the borrower indicating default;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material deterioration in the customer's financial position in the opinion of the Group causing concerns on the repayment ability;
- A material covenant breach in a committed facility;
- Filing for bankruptcy or liquidation;
- Downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade rating and by 1 grade for those with Non-Investment Grade rating.

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

Definition of default

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) when:

- The borrower is past due for more than 90 days on its credit obligation to the Group;
- The borrower is facing significant financial difficulty;
- The borrower is assessed as credit impaired based on internal qualitative and quantitative assessment;
- Other indicators such as breach of covenants, customer being deceased etc;

The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

Measurement of ECLs

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

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Measurement of ECLs (continued)

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 expected drawdowns on committed facilities, repayments of principal and interest, whether scheduled by contract or otherwise. In addition, Group also complies with the CBK guidelines with respect to application of Credit Conversion Factors.

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 derecognised 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 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.

The LGD threshold for unsecured senior and subordinate loans and advances to customers is determined in accordance with the CBK guidelines relating to IFRS 9.

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 and oil prices 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 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 a customer has been renegotiated or modified but not derecognised, any impairment is measured using the original effective 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 and 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 amortized cost.

Write-offs

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.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Derivative financial instruments

Derivative instruments are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

The Group enters into foreign exchange forward contracts. Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and losses from derivatives are included in the consolidated statement of profit or loss.

Fair value measurement

The Group measures financial instruments, such as, derivatives, investment securities etc., at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability, or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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.

Investment in associates

An associate is an entity over which the Group exerts significant influence. Investment in associate is accounted for under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5.

Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The Group recognises in the consolidated statement of profit or loss its share of the total recognised profit or loss of the associate from the date that influence, or ownership effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in Group's share in the associate arising from changes in the associate's equity that have not been recognised in the associate's profit or loss statement. The Group's share of those changes is recognised in the consolidated statement of profit or loss and other comprehensive income.

Unrealised gains on transactions with associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

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The associate's financial statements are prepared either to the Group's reporting date or to a date not earlier than three months of the Group's reporting date using consistent accounting policies. Where practicable, adjustments are made for the effects of significant transactions or other events that occur between the reporting date of the associates and the Group's reporting date.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all premises and equipment, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis to their residual values over its estimated useful life. Freehold land is stated at cost less impairment losses.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20 years
Others	1 to 5 years

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the consolidated statement of profit or loss.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An assets or cash-generating unit's ("CGU") recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

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.

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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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

Treasury shares

The Bank's holding in its own shares is stated at acquisition cost and is recognised in equity. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are sold, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable until all the treasury shares are disposed. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. These shares are not entitled to any cash dividend that the Bank may propose. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Contingencies

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services and class of customers are appropriately aggregated and reported as reportable segments.

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.

Revenue recognition

Interest and similar income and expense

Interest income and expense for all interest-bearing financial instruments are recognized 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 recognized 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.

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Fees and commission income

Fees and commission 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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Fees and commission income (continued)

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.

Dividend income

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed and is included in the same line item in the consolidated statement of profit or loss.

Foreign currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transaction and balances

Transactions in foreign currencies are initially recorded at the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of profit or loss.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in OCI, foreign exchange differences are recognised directly in OCI and for non-monetary assets whose change in fair value are recognised directly in the consolidated statement of profit or loss, foreign exchange differences are recognised in the consolidated statement of profit or loss.

Taxation

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 Kuwaiti shareholding subsidiaries and associates and transfer to statutory reserve.

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 Kuwaiti shareholding companies in accordance with Law No. 46 of 2006 and Ministerial resolution No. 58 of 2007 and its Executive Regulations.

2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgments (continued)

Classification of financial assets

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 are solely payments of principal and profit on the principal amount outstanding.

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment losses on loans and advances

Considerable judgement by management is required in the estimation of the amount and timing of future cash flows, collateral values, significant increase in credit risk, rating models, ECL models, macro-economic variables when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of financial instruments

The Group estimates ECL for all financial assets carried at amortised cost (except for balances with the CBK and government of Kuwait) or FVOCI except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing 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 the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

The Group has the policy to regularly review its model in the context of actual loss experience and adjust when necessary.

Valuation of financial instruments with significant unobservable inputs

Valuation techniques for financial instruments with significant unobservable inputs includes estimates such as expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; recent arm's length market transactions; current fair value of another instrument that is substantially the same; valuation models etc.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying values of unquoted financial assets.

3. CASH AND CASH EQUIVALENTS

	2021 KD'000	2020 KD'000
Balances with the CBK	3,169	2,536
Cash in hand and current accounts	5,029	4,166
Deposits with banks and financial institutions maturing within 7 days	53,000	17,000
	<u>61,198</u>	<u>23,702</u>

Deposits with banks and financial institutions carry interest rate ranging from 0.88% to 2% (2020: 0.2% to 2.95%) per

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4. TREASURY BILLS AND BONDS

	2021 KD'000	2020 KD'000
CBK bonds	25,429	24,434
Treasury bills	44,750	51,250
	<u>70,179</u>	<u>75,684</u>

In accordance with guidelines of the CBK, the Bank is required to maintain a minimum of 15% of the private customer deposits denominated in Kuwaiti Dinars as treasury bills and bonds. Treasury bills and bonds carry interest rate ranging from 1.88% to 3.13% (2020: 1.25% to 3.13%) per annum.

In accordance with the CBK guidelines relating to IFRS 9 issued on 25 December 2018, no expected credit losses have been recorded against the bonds, treasury bills, and public debt instruments issued by the CBK and the State of Kuwait.

5. INVESTMENTS

Financial assets at fair value through profit or loss

	2021 KD'000	2020 KD'000
Quoted equities	13,075	13,540
Unquoted equities	1,148	1,253
Funds	118,118	99,596
	<u>132,341</u>	<u>114,389</u>

The disclosure of fair value measurement and the levels of fair value hierarchy relating to the financial assets at fair value through profit or loss is disclosed in Note 21.

The unrealised gain (loss) on financial assets at fair value through profit or loss for the year is as below:

	2021 KD'000	2020 KD'000
Quoted equities	(361)	(3,909)
Unquoted equities	(59)	(30)
Funds	4,913	8,806
	<u>4,493</u>	<u>4,867</u>

Investment carried at amortised cost

The Group has an investment in unquoted corporate unsecured bond of KD Nil (2020: KD 10,000 thousand). The bond carries interest rate of Nil % (2020: 4.125%) and matured in 2021.

6. LOANS AND ADVANCES TO CUSTOMERS

	2021 KD'000	2020 KD'000
Industrial loans at preferential lending rates	147,267	149,602
Loans and advances at commercial lending rates	174,745	173,601
	<u>322,012</u>	<u>323,203</u>
Less: provision for credit losses	(43,562)	(39,265)
	<u>278,450</u>	<u>283,938</u>

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6. LOANS AND ADVANCES TO CUSTOMERS (continued)

The provision for credit losses is as follows:

2021	Industrial loans			Commercial loans			Total
	Specific KD'000	General KD'000	Total KD'000	Specific KD'000	General KD'000	Total KD'000	KD'000
Balance at 1 January	-	8,245	8,245	1,024	29,996	31,020	39,265
Charged/ reversal for the year	1,610	(17)	1,593	1,837	5,338	7,175	8,768
Written off during the year	(1,610)	-	(1,610)	(2,861)	-	(2,861)	(4,471)
Balance at 31 December	-	8,228	8,228	-	35,334	35,334	43,562

2020	Industrial loans			Commercial loans			Total
	Specific KD'000	General KD'000	Total KD'000	Specific KD'000	General KD'000	Total KD'000	KD'000
Balance at 1 January	-	5,841	5,841	588	19,605	20,193	26,034
Charge for the year	-	2,404	2,404	436	10,391	10,827	13,231
Balance at 31 December	-	8,245	8,245	1,024	29,996	31,020	39,265

The available provision balance relating to non-cash facilities of KD 1,397 thousand (2020: KD 1,486 thousand) is included in other liabilities (Note 9).

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 22,564 thousand as at 31 December 2021 (2020: KD 23,250 thousand).

During the year, the Bank has made recoveries amounting to KD 10,192 thousand (2020: KD 612 thousand) pertaining to certain loans and advances that were fully provided for and written-off in prior years.

An analysis of the carrying amounts of Loans and advances (cash facilities) based on the staging criteria under IFRS 9 in accordance with CBK regulations:

2021	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
<i>Credit Facilities</i>				
High	42,868	-	-	42,868
Standard	163,117	90,540	-	253,657
Past due or impaired	-	-	25,487	25,487
	205,985	90,540	25,487	322,012

2020	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
<i>Credit Facilities</i>				
High	49,156	-	-	49,156
Standard	172,498	72,440	-	244,938
Past due or impaired	-	-	29,109	29,109
	221,654	72,440	29,109	323,203

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6. LOANS AND ADVANCES TO CUSTOMERS (continued)

An analysis of the carrying amounts of contingent liabilities and commitments, the amounts in the table represent the amounts committed or guaranteed (Non-cash facilities), based on the staging criteria under IFRS 9 in accordance with CBK regulations.

2021	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
<i>Credit Facilities</i>				
High	12,459	-	-	12,459
Standard	40,357	23,340	-	63,697
Past due or impaired	-	-	2,242	2,242
Contingent liabilities (Note 18)	52,816	23,340	2,242	78,398
2020	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
<i>Credit Facilities</i>				
High	14,894	-	-	14,894
Standard	37,013	18,715	-	55,728
Past due or impaired	-	-	2,905	2,905
Contingent liabilities (Note 18)	51,907	18,715	2,905	73,527

An analysis of the changes in the ECL in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines is as follows:

	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2021	2,383	4,320	16,547	23,250
Transfer between stages				
Transfer from Stage 1	(226)	226	-	-
Transfer from Stage 2	21	(21)	-	-
Transfer from Stage 3	-	161	(161)	-
Net (decrease) increase in ECL for the year	(661)	(1,017)	992	(686)
At 31 December 2021	1,517	3,669	17,378	22,564
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2020	1,613	224	14,166	16,003
Transfer between stages				
Transfer from Stage 1	(146)	123	23	-
Transfer from Stage 2	-	(28)	28	-
Net increase in ECL for the year	916	4,001	2,330	7,247
At 31 December 2020	2,383	4,320	16,547	23,250

Sensitivity

For measuring the overall sensitivity of the forward-looking information and key economic variables on the Group's ECL on credit facilities, the Group conducts stress tests by allocating a higher weightage to the downside scenario which results in an increase in the Bank's ECL allowance for credit facilities in Stage 3. However, the ECL so determined after incorporating the aggregate impact of these sensitivity adjustments, continues to remain lower than the total provision for credit losses recorded as per CBK instructions, and accordingly will not have an impact on the Group's consolidated statement of profit or loss as well as on the carrying value of these assets.

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7. INVESTMENTS IN ASSOCIATES

	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Ownership</i>		<i>Carrying value</i>	
			<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
			<i>2021</i>	<i>2020</i>	<i>KD'000</i>	<i>KD'000</i>
Al Rawdatain Water Bottling Co. K.S.C.C.	State of Kuwait	Production and bottling of mineral water	30%	30%	3,894	3,638
Qaroh P.E.T. Products Co. K.S.C.C.	State of Kuwait	Specialised industrial products	30%	30%	1,455	1,430
Technology Industrial Gases Production Company K.S.C.C.	State of Kuwait	Production of industrial gases	20%	20%	1,586	1,318
					6,935	6,386

As at 31 December 2021, the aggregate amount of assets, liabilities, income and expenses of associates, without adjustment for the ownership interest held by the Group, was KD 33,079 thousand, KD 7,919 thousand, KD 3,535 thousand and KD 1,856 thousand, respectively (2020: KD 31,228 thousand, KD 8,344 thousand, KD 2,501 thousand and KD 1,457 thousand, respectively).

The Group's share of results of the associates and dividend distributed by associates to the Group during the year ended 31 December 2021 was KD 606 thousand and KD 57 thousand respectively (2020: share of loss of KD 190 thousand and KD 15 thousand, respectively).

The management has carried out an assessment of impairment indicators on the Group's investment in associates considering the significant adverse changes in economy, market factors, legal environment, industry or the political factors affecting the investees business including the consideration for the changes in investees' financial condition. The management has not identified any indicators of impairment relating to Group's investment in associates as at the reporting date.

8. PROPERTY AND EQUIPMENT

	<i>Land KD'000</i>	<i>Buildings KD'000</i>	<i>Others KD'000</i>	<i>Total KD'000</i>
Cost:				
Balance at 1 January 2020	3,672	9,232	5,499	18,403
Additions	-	357	430	787
Disposals	-	-	(39)	(39)
Balance at 31 December 2020	3,672	9,589	5,890	19,151
Additions	-	-	206	206
Balance at 31 December 2021	3,672	9,589	6,096	19,357
Accumulated depreciation:				
Balance at 1 January 2020	-	9,019	4,078	13,097
Charge for the year	-	26	527	553
Related to disposals	-	-	(39)	(39)
Balance at 31 December 2020	-	9,045	4,566	13,611
Charge for the year	-	39	604	643
Balance at 31 December 2021	-	9,084	5,170	14,254
Carrying amount:				
Balance at 31 December 2020	3,672	544	1,324	5,540
Balance at 31 December 2021	3,672	505	926	5,103

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9. OTHER LIABILITIES

	2021 KD'000	2020 KD'000
Depositors' profit payable	595	730
Provision on non-cash credit facilities (Note 6)	1,397	1,486
Accrued staff benefits	11,254	7,714
Recoveries received under settlement*	9,998	-
Others	6,136	5,381
	29,380	15,311

*During the current year ended 31 December 2021, the Bank has received net amount of KD 9,998 thousand which pertains to a recovery of loans previously written off. The Group has recognized the amount received as other payable as there is a legal case raised by the borrower against the Bank which still under consideration till date.

10. LOANS

Term loans

On 22 June 2021, the Group has obtained an unsecured a medium-term loan facility of EUR 30 million from a foreign bank. The loan carries a fixed interest rate of 1.1% per annum which is paid on monthly basis. The principal amount of the loan will be settled as one payment on 23 June 2023. As at 31 December 2021 the balance is KD 10,292 thousand.

On 15 July 2021, the Group has obtained an unsecured a medium-term loan facility of USD 70 million from a foreign bank. The loan carries three-month LIBOR plus a spread of 0.55% which is paid on quarterly basis. The principal amount of the loan will be settled as one payment on 30 June 2022. As at 31 December 2021 the term loan balance is KD 21,175 thousand.

On 25 October 2021, the Group has renewed a medium-term loan facility of USD 50 million from a foreign bank (2020: USD 50 million). The loan carries one-month LIBOR plus a spread of 1.45% (2020: one-month LIBOR plus a spread of 1.35%) which is paid on monthly basis. The principal amount of the loan will be settled as one payment on 25 October 2024. As at 31 December 2021 the term loan balance is KD 15,125 thousand (2020: KD 15,162 thousand).

In May 2018, the Group has obtained an unsecured a medium-term loan facility of EUR 45 million from a foreign bank. The loan carries fixed interest rate of 1.05% (2020: 1.05%). During the year ended 31 December 2021, the Group has repaid the full outstanding amount of the term loan facility of KD 16,498 thousand. As at 31 December 2021 the balance is KD Nil thousand (2020: KD 16,776 thousand).

During the prior year ended 31 December 2020, the Group has repaid a term loan facility of USD 50 million, equivalent to KD 15,293 thousand that was obtained from a foreign bank. Under the contractual arrangement, this term loan facility was repaid in August 2020 when it became due.

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 unutilised portion of the loan (which is not granted for industrial exposures) is subject to interest rate of 3 months Kuwait inter-bank offering rate.

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11. EQUITY

- a) The authorised, issued and fully paid-up share capital of the Bank comprises of 2 million shares of KD 10 each, paid in cash (2020: 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, as amended, 10% of the profit for the year before contribution to KFAS, Board of Directors' remuneration and zakat has been transferred to the 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 Bank's Articles of Association, as amended, the Board of Directors have proposed to transfer an amount of KD 3,945 thousand to voluntary reserve for the year ended 31 December 2021 (2020: KD 1,062 thousand).
- d) During the year, the Bank acquired 89,686 treasury shares amounting to KD 3,163 thousand as part of a settlement with a customer. The Bank has redeemed these shares, resulting in a gain of KD 152 thousand, which is included under treasury shares reserve in equity.
- e) The Shareholders' Annual General Assembly held on 27 July 2021 approved the audited consolidated financial statements for the year ended 31 December 2020 and cash dividend of 25% amounting to KD 5,000 thousand (31 December 2019: Cash dividend of 25% amounting to KD 4,776 thousand), which was paid during the year.
- f) For the year ended 31 December 2021, the Board of Directors meeting held on 16 February 2022 have proposed cash dividends of 30% amounting to KD 6,000 thousand. The proposal is subject to the approval of the Shareholders at the Annual General Assembly Meeting.

12. NET INVESTMENT INCOME

	2021 KD'000	2020 KD'000
Dividend income	276	832
Realised gain on financial assets at fair value through profit or loss	26,540	11,724
Unrealised gain on financial assets at fair value through profit or loss	4,493	4,867
Share of results from associates	606	(190)
	<u>31,915</u>	<u>17,233</u>

13. STAFF COSTS

	2021 KD'000	2020 KD'000
Salaries and other short-term benefits	5,130	5,087
Post-employment benefits	978	1,044
Other benefits	4,680	2,064
	<u>10,788</u>	<u>8,195</u>

14. OTHER EXPENSES

	2021 KD'000	2020 KD'000
Administrative expenses	1,401	904
Operating expenses	790	859
Other expenses	667	294
	<u>2,858</u>	<u>2,057</u>

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15. BOARD OF DIRECTORS' REMUNERATION

The Board of Directors proposed an amount of KD 322 thousand towards remuneration of the Board of Directors and respective committees for the year ended 31 December 2021 (2020: KD 298 thousand). The proposed remuneration of the Board of Directors is subject to approval of shareholders at the Annual General Assembly meeting.

The Shareholders' Annual General Assembly held on 27 July 2021 approved the board of directors' remuneration for the year ended December 31, 2020 with an amount of KD 298 thousand.

16. 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.

	2021	2020
Net profit for the year (KD'000)	38,351	10,105
Weighted average number of outstanding shares during the year shares ('000)	2,000	2,000
Basic and diluted earnings per share (KD)	19.176	5.053

17. 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 2021, the Bank has 12 members on the Board of Directors (2020: 9 Directors). And 19 executive officers (2020:18 executives).

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17. RELATED PARTY DISCLOSURES (continued)

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

	2021 KD'000	2020 KD'000
Consolidated statement of financial position		
<i>Balances with shareholders</i>		
Cash and cash equivalents	3,169	2,536
Treasury bills and bonds	70,179	75,684
Other assets	341	364
Deposit from customers	24,200	24,539
Other liabilities	170	271
Loan from the State of Kuwait	300,000	300,000
<i>Balances with other related parties</i>		
Other assets	680	691
Deposits from customers	3,742	2,366
Commitments and contingent liabilities	2,639	1,174
<i>Balances with associates</i>		
Loans and advances to customers	4,648	5,678
Other assets	73	198
Other liabilities	51	2
Commitments and contingent liabilities	666	458
Consolidated statement of profit or loss and other comprehensive income		
<i>Transactions with shareholders</i>		
Interest income	1,503	2,149
Interest expense	2,558	2,900
Recoveries from loans written-off	3,315	-
<i>Transactions with other related parties</i>		
Interest expense	4	7
<i>Transactions with associate companies</i>		
Interest income	236	198

Details of compensation to key management personnel comprise the following:

	2021 KD'000	2020 KD'000
Salaries and other short-term benefits	473	463
Variable benefits	281	279
Post-employment benefits	32	30

18. 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 do not 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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18. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

a) Commitments and contingent liabilities

	2021 KD'000	2020 KD'000
Acceptances	2,503	1,902
Letters of credit	7,908	5,253
Letters of guarantee	67,987	66,372
	<u>78,398</u>	<u>73,527</u>

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 commitments

At 31 December 2021, the Group has commitments in respect of uncalled capital contribution relating to investments carries at fair value through profit or loss amounting to KD 59,487 thousand (2020: KD 72,472 thousand).

19. 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 329,492 thousand (2020: KD 326,053 thousand). The Group earned fees income from managing the fiduciary assets of KD 2,994 thousand during the year ended 31 December 2021 (2020: KD 2,895 thousand).

20. FINANCIAL RISK MANAGEMENT

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

- ▶ 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.

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At 31 December 2021

20. FINANCIAL RISK MANAGEMENT (continued)

20.1 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, the Group has formed an internal committee comprising competent professional staff and having as its purpose to study and evaluate 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.

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 lifetime 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 quantitative criteria, the Group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

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

Measurement of ECL

ECL are probability-weighted estimates of credit losses and are measured at the present 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 Industrial Bank of Kuwait K.S.C. (Closed) and its subsidiaries

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20. FINANCIAL RISK MANAGEMENT (continued)

20.1 Credit risk (continued)

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 utilised and unutilised 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, unemployment rates and oil prices. 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 18.

The industry concentration of credit risk pertaining to loans and advances to customers relating to manufacturing and industrial sector is 62.48% (2020: 57.17%).

Geographical concentration of credit risk is reflected in Note 20.1.1.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and the related collateral agreements.

	2021 KD'000	2020 KD'000
Credit risk exposures relating to financial assets on consolidated statement of financial position:		
Cash and cash equivalents (excluding cash on hand)	61,043	23,513
Treasury bills and bonds	70,179	75,684
Deposits with banks and other financial institutions	183,888	163,003
Investment carried at amortized cost	-	10,000
Loans and advances to customers	278,450	283,938
Other assets	4,045	5,737
Total	597,605	561,875
Credit risk exposures relating to off balance sheet items:		
Acceptances	2,503	1,902
Letters of credit	7,908	5,253
Letters of guarantees	67,987	66,372
Total	78,398	73,527
Total credit risk exposure	676,003	635,402

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 10 largest gross loans and advances to customers outstanding as a percentage of total loans and advances to customers is 47.63% as at 31 December 2021 (2020: 51.51%).

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20. FINANCIAL RISK MANAGEMENT (continued)

20.1 Credit risk (continued)

Collateral and other credit enhancements

The Bank has implemented various policies and practices to minimise credit risk. The Bank seeks collateral coverage, the assignment of contract proceeds and other forms of protection to secure lending and minimise 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.

2021	<i>Neither past due nor impaired</i>		<i>Total</i> KD'000
	<i>High grade</i> KD'000	<i>Standard grade</i> KD'000	
Loans and advances to customers			
- Industrial loans	20,123	126,153	146,276
- Commercial loans	22,745	145,657	168,402
Total	42,868	271,810	314,678

2020	<i>Neither past due nor impaired</i>		<i>Total</i> KD'000
	<i>High grade</i> KD'000	<i>Standard grade</i> KD'000	
Loans and advances to customers			
- Industrial loans	23,577	103,509	127,086
- Commercial loans	25,597	135,718	161,315
Total	49,174	239,227	288,401

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

	<i>Past due up to 30 days</i> KD'000	<i>Past due from 31 to 60 days</i> KD'000	<i>Past due from 61 to 90 days</i> KD'000	<i>Past due for more than 90 days</i> KD'000	<i>Total</i> KD'000
2021					
Loans and advances to customers					
- Industrial loans	391	600	-	-	991
- Commercial loans	4,452	1,640	165	86	6,343
Total	4,843	2,240	165	86	7,334
Fair value of collateral					16,911

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20. FINANCIAL RISK MANAGEMENT (continued)

20.1 Credit risk (continued)

	<i>Past due up to 30 days KD'000</i>	<i>Past due from 31 to 60 days KD'000</i>	<i>Past due from 61 to 90 days KD'000</i>	<i>Past due for more than 90 days KD'000</i>	<i>Total KD'000</i>
2020					
Loans and advances to customers					
- Industrial loans	1,381	616	20,429	90	22,516
- Commercial loans	10,802	-	101	359	11,262
Total	12,183	616	20,530	449	33,778
Fair value of collateral					96,719

Past due and individually impaired loans are as follows:

	<i>Gross exposure KD'000</i>	<i>Impairment KD'000</i>	<i>Fair value of collateral KD'000</i>
2021			
Loans and advances to customers			
- Commercial loans	-	-	-
Total	-	-	-
2020			
Loans and advances to customers			
- Commercial loans	1,024	1,024	7,620
Total	1,024	1,024	7,620

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At 31 December 2021

20. FINANCIAL RISK MANAGEMENT (continued)

20.1 Credit risk (continued)

20.1.1 Geographical concentration of assets, liabilities and contingent liabilities

2021	Kuwait KD'000	GCC KD'000	Europe KD'000	North America KD'000	Asia and Pacific KD'000	Latin America KD'000	Total KD'000
Assets							
Cash and cash equivalents	56,880	196	387	3,733	2	-	61,198
Treasury bills and bonds	70,179	-	-	-	-	-	70,179
Deposits with banks and other financial institutions	183,888	-	-	-	-	-	183,888
Financial assets at fair value through profit or loss	18,077	15,196	27,760	50,740	18,895	1,673	132,341
Loans and advances to customers	278,450	-	-	-	-	-	278,450
Investments in associates	6,935	-	-	-	-	-	6,935
Other assets	4,045	-	-	-	-	-	4,045
Property and equipment	5,103	-	-	-	-	-	5,103
Total assets	623,557	15,392	28,147	54,473	18,897	1,673	742,139
Liabilities							
Deposits from banks and other financial institutions	36,363	-	-	-	-	-	36,363
Deposits from customers	48,259	-	-	-	-	-	48,259
Other liabilities	29,380	-	-	-	-	-	29,380
Tern loans	-	36,300	10,292	-	-	-	46,592
Loan from the State of Kuwait	300,000	-	-	-	-	-	300,000
Total liabilities	414,002	36,300	10,292	-	-	-	460,594
Commitments and contingent liabilities	73,741	1,232	1,918	-	1,507	-	78,398

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At 31 December 2021

20. FINANCIAL RISK MANAGEMENT (continued)

20.1 Credit risk (continued)

20.1.1 Geographical concentration of assets, liabilities and contingent liabilities (continued)

2020	Kuwait KD '000	GCC KD '000	Europe KD '000	North America KD '000	Asia and Pacific KD '000	Latin America KD '000	Total KD '000
Assets							
Cash and cash equivalents	20,042	255	430	2,971	4	-	23,702
Treasury bills and bonds	75,684	-	-	-	-	-	75,684
Deposits with banks and other financial institutions	163,003	-	-	-	-	-	163,003
Financial assets at fair value through profit or loss	9,112	16,946	25,785	42,409	18,074	2,063	114,389
Investment carried at amortised cost	10,000	-	-	-	-	-	10,000
Loans and advances to customers	283,938	-	-	-	-	-	283,938
Investments in associates	6,386	-	-	-	-	-	6,386
Other assets	5,737	-	-	-	-	-	5,737
Property and equipment	5,540	-	-	-	-	-	5,540
Total assets	579,442	17,201	26,215	45,380	18,078	2,063	688,379
Liabilities							
Deposits from banks and other financial institutions	35,373	-	8,780	-	-	-	44,153
Deposits from customers	48,935	-	-	-	-	-	48,935
Other liabilities	15,311	-	-	-	-	-	15,311
Term loans	-	15,162	16,776	-	-	-	31,938
Loan from the State of Kuwait	300,000	-	-	-	-	-	300,000
Total liabilities	399,619	15,162	25,556	-	-	-	440,337
Commitments and contingent liabilities	70,357	1,403	753	-	1,014	-	73,527

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20. FINANCIAL RISK MANAGEMENT (continued)

20.2 Liquidity risk

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

The table below summarises 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 undiscounted maturity profile of the financial liabilities is as follows:

2021	<i>Less than 1 month KD'000</i>	<i>1 to 3 months KD'000</i>	<i>3 to 12 months KD'000</i>	<i>1 to 5 years KD'000</i>	<i>Over 5 years KD'000</i>	<i>Total KD'000</i>
Deposits from banks and other financial institutions	36,374	-	-	-	-	36,374
Deposits from customers	47,899	248	114	-	-	48,261
Other liabilities	-	-	29,380	-	-	29,380
Term loans	-	-	21,296	26,080	-	47,376
Loan from the State of Kuwait	-	-	-	-	310,894	310,894
Total undiscounted financial liabilities	<u>84,273</u>	<u>248</u>	<u>50,790</u>	<u>26,080</u>	<u>310,894</u>	<u>472,285</u>
2020	<i>Less than 1 month KD'000</i>	<i>1 to 3 months KD'000</i>	<i>3 to 12 months KD'000</i>	<i>1 to 5 years KD'000</i>	<i>Over 5 years KD'000</i>	<i>Total KD'000</i>
Deposits from banks and other financial institutions	44,170	-	-	-	-	44,170
Deposits from customers	45,596	259	3,091	-	-	48,946
Other liabilities	-	-	15,311	-	-	15,311
Term loans	-	-	32,266	-	-	32,266
Loan from the State of Kuwait	-	-	-	-	315,725	315,725
Total undiscounted financial liabilities	<u>89,766</u>	<u>259</u>	<u>50,668</u>	<u>-</u>	<u>315,725</u>	<u>456,418</u>

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

2021	<i>Less than 1 month KD '000</i>	<i>1 to 3 months KD '000</i>	<i>3 to 12 months KD '000</i>	<i>1 to 5 years KD '000</i>	<i>Over 5 years KD '000</i>	<i>Total KD '000</i>
Commitments and contingent liabilities	<u>4,821</u>	<u>18,176</u>	<u>28,010</u>	<u>27,391</u>	<u>-</u>	<u>78,398</u>
2020	<i>Less than 1 month KD '000</i>	<i>1 to 3 months KD '000</i>	<i>3 to 12 months KD '000</i>	<i>1 to 5 years KD '000</i>	<i>Over 5 years KD '000</i>	<i>Total KD '000</i>
Commitments and contingent liabilities	<u>5,378</u>	<u>10,188</u>	<u>28,156</u>	<u>29,604</u>	<u>201</u>	<u>73,527</u>

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20. FINANCIAL RISK MANAGEMENT (continued)

20.2 Liquidity risk (continued)

The maturity profile of the assets and liabilities as at the reporting date based on contractual repayment arrangements is as follows:

	<i>Less than one year KD'000</i>	<i>From one year to five years KD'000</i>	<i>Over five years KD'000</i>	<i>No fixed maturity KD'000</i>	<i>Total KD'000</i>
2021					
Assets					
Cash and cash equivalents	61,198	-	-	-	61,198
Treasury bills and bonds	52,429	12,750	5,000	-	70,179
Deposits with banks and other financial institutions	183,888	-	-	-	183,888
Financial assets at fair value through profit or loss	-	-	132,341	-	132,341
Loans and advances to customers	103,797	95,321	79,332	-	278,450
Investments in associates	-	-	-	6,935	6,935
Other assets	2,800	-	1,245	-	4,045
Property and equipment	-	-	-	5,103	5,103
Total assets	404,112	108,071	217,918	12,038	742,139
Liabilities and equity					
Deposits from banks and financial institutions	36,363	-	-	-	36,363
Deposits from customers	48,259	-	-	-	48,259
Other liabilities	29,380	-	-	-	29,380
Term loans	21,175	25,417	-	-	46,592
Loan from the State of Kuwait	-	-	300,000	-	300,000
Equity	-	-	-	281,545	281,545
Total liabilities and equity	135,177	25,417	300,000	281,545	742,139
Net liquidity position	268,935	82,654	(82,082)	(269,507)	-
2020					
Assets					
Cash and cash equivalents	23,702	-	-	-	23,702
Treasury bills and bonds	32,934	37,750	5,000	-	75,684
Deposits with banks and other financial institutions	163,003	-	-	-	163,003
Financial assets at fair value through profit or loss	-	-	114,389	-	114,389
Investment carried at amortized cost	-	10,000	-	-	10,000
Loans and advances to customers	95,135	88,395	100,408	-	283,938
Investments in associates	-	-	-	6,386	6,386
Other assets	5,010	-	727	-	5,737
Property and equipment	-	-	-	5,540	5,540
Total assets	319,784	136,145	220,524	11,926	688,379
Liabilities and equity					
Deposits from banks and financial institutions	44,153	-	-	-	44,153
Deposits from customers	48,935	-	-	-	48,935
Other liabilities	15,311	-	-	-	15,311
Term loans	31,938	-	-	-	31,938
Loan from the State of Kuwait	-	-	300,000	-	300,000
Equity	-	-	-	248,042	248,042
Total liabilities and equity	140,337	-	300,000	248,042	688,379
Net liquidity position	179,447	136,145	(79,476)	(236,116)	-

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20. FINANCIAL RISK MANAGEMENT (continued)

20.3 Market risk

Market risk is the risk that the Group'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. 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.

20.3.1 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:

2021

Currency	Change in currency rate in %	Effect on profit KD '000
USD	±1 %	207
Euro	±1 %	6

2020

Currency	Change in currency rate in %	Effect on profit KD '000
USD	±1 %	182
Euro	±1 %	36

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

	2021 Long/(short) KD '000	2020 Long/(short) KD '000
US Dollars	20,724	18,200
Euro	(556)	(3,611)

20.3.2 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities 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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20. FINANCIAL RISK MANAGEMENT (continued)

20.3.2 Interest rate risk (continued)

2021	<i>Less than 1 year</i> KD '000	<i>1 to 5 years</i> KD '000	<i>Over 5 years</i> KD '000	<i>Total</i> KD '000	<i>Effective interest rate / range</i>
Assets					
Cash and cash equivalents	61,043	-	-	61,043	0.000% - 1.250%
Treasury bills and bonds	70,179	-	-	70,179	1.875% - 3.125%
Deposits with banks and other financial institutions	183,888	-	-	183,888	0.875% - 2.000%
Loans and advances to customers	132,987	75,399	70,064	278,450	2.500% - 5.500%
Total assets	448,097	75,399	70,064	593,560	
Liabilities					
Deposits from banks and financial institutions	36,363	-	-	36,363	0.625% - 1.700%
Deposits from customers	48,259	-	-	48,259	0.000% - 1.375%
Term loans	21,175	25,417	-	46,592	0.674% - 1.554%
Loan from the State of Kuwait	48,609	-	251,391	300,000	0.500% - 1.500%
Total liabilities	154,406	25,417	251,391	431,214	
Net gap	293,691	49,982	(181,327)	162,346	
Cumulative interest rate sensitivity gap	293,691	343,673	162,346		

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20. FINANCIAL RISK MANAGEMENT (continued)

20.3.2 Interest rate risk (continued)

2020	<i>Less than 1 year</i> KD '000	<i>1 to 5 years</i> KD '000	<i>Over 5 years</i> KD '000	<i>Total</i> KD '000	<i>Effective interest rate / range</i>
Assets					
Cash and cash equivalents	23,514	-	-	23,514	0.000% - 0.875%
Treasury bills and bonds	75,684	-	-	75,684	1.250% - 3.125%
Deposits with banks and other financial institutions	163,003	-	-	163,003	0.200% - 2.950%
Investment carried at amortized cost	10,000	-	-	10,000	4.125 % - 4.125%
Loans and advances to customers	154,639	85,185	44,114	283,938	1.877% - 4.120%
Total assets	426,840	85,185	44,114	556,139	
Liabilities					
Deposits from banks and financial institutions	44,153	-	-	44,153	0.120% - 3.125%
Deposits from customers	48,935	-	-	48,935	0.250% - 1.875%
Term loans	31,938	-	-	31,938	1.050% - 1.500%
Loan from the State of Kuwait	60,321	-	239,679	300,000	0.500% - 1.590%
Total liabilities	185,347	-	239,679	425,026	
Net gap	241,493	85,185	(195,565)	131,113	
Cumulative interest rate sensitivity gap	241,493	326,678	131,113		

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20. FINANCIAL RISK MANAGEMENT (continued)

20.3.3 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:

	2021 KD '000	2020 KD '000
Change in the stock market index:		
Effect on investment portfolios on 10% change in index	1,504±	1,516±

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 in relation to movement in any specific equity indexes.

20.4 OPERATIONAL RISK

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

21. 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.

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

	Level 1 KD'000	Level 3 KD'000	Total KD'000
2021			
<i>Investments at fair value through profit or loss</i>			
Quoted equities	13,075	-	13,075
Unquoted equities	-	1,148	1,148
Funds	-	118,118	118,118
Total	13,075	119,266	132,341
	Level 1 KD'000	Level 3 KD'000	Total KD'000
2020			
<i>Investments at fair value through profit or loss</i>			
Quoted equities	13,540	-	13,540
Unquoted equities	-	1,253	1,253
Funds	-	99,596	99,596
Total	13,540	100,849	114,389

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21. FAIR VALUE MEASUREMENT (continued)

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.

31 December 2021

	<i>At 1 January 2021</i>	<i>Additions / (redemptions)</i>	<i>Change in fair value</i>	<i>At 31 December 2021</i>
	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>
<i>Investments at fair value through profit or loss</i>				
Funds	99,596	13,609	4,913	118,118
Unquoted equities	1,253	(46)	(59)	1,148
	<u>100,849</u>	<u>13,563</u>	<u>4,854</u>	<u>119,266</u>

31 December 2020

	<i>At 1 January 2020</i>	<i>Additions / (redemptions)</i>	<i>Change in fair value</i>	<i>At 31 December 2020</i>
	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>
<i>Investments at fair value through profit or loss</i>				
Funds	80,384	10,406	8,806	99,596
Unquoted equities	1,283	-	(30)	1,253
	<u>81,667</u>	<u>10,406</u>	<u>8,776</u>	<u>100,849</u>

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 represent 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.

Fair values of remaining assets and liabilities carried at amortised 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.

22. 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;

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22. CAPITAL MANAGEMENT (continued)

	2021 KD'000	2020 KD'000
Risk weighted assets	581,381	559,899
Total minimum capital required	75,580	72,787
Common Equity Tier 1 (CET1) Capital	275,393	243,041
Tier 2 Capital	7,016	6,730
	282,409	249,771
CET 1 capital adequacy ratio	47.37%	43.41%
Tier 1 capital adequacy ratio	47.37%	43.41%
Total capital adequacy ratio	48.58%	44.61%

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

	2021 KD'000	2020 KD'000
Tier 1 Capital	275,393	243,041
Total exposure	802,446	751,059
Leverage ratio	34.32%	32.36%

23. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments such as forward foreign exchange contracts to mitigate foreign currency risk. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

Forward foreign exchange contracts

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The notional amount, disclosed gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

Types of derivative contracts

The table below shows the fair value of derivative financial instruments, together with their notional amounts analysed by the terms of maturity:

31 December 2021	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount		
			Within 1 year KD 000's	Over 1 year KD 000's	Total KD 000's
Derivatives held for trading:					
Foreign exchange contracts	11,651	(11,664)	11,664	-	11,664
	11,651	(11,664)	11,664	-	11,664

The Group's derivative financial instruments are classified under level 2 hierarchy of the fair value measurement.

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As at and for the year ended 31 December 2021

24. IMPLICATIONS OF COVID-19

The Coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment, and governments and authorities have announced a host of support measures to counter possible adverse implications and contain or delay the spread of the virus.

The Group is closely monitoring the situation and has activated its Business Continuity Planning and risk management practices to manage the potential business disruption that COVID-19 outbreak may have on its operations and financial performance.

COVID-19 support measures

In response to the crisis, the CBK implemented various measures targeted at reinforcing the banking sectors ability to play a vital role in the economy, including but not limited to the expansion of lending capacity, strengthening financing capabilities, providing direction in lending to productive economic sectors and in the provision of liquidity to impacted customers. Some of the important measures are given below:

- ▶ Decreased the regulatory Liquidity Coverage Ratio ("LCR") from 100% to 80%. Subsequently increased to 90% for 2022.
- ▶ Decreased the regulatory Net Stable Financing Ratio ("NSFR") from 100% to 80%. Subsequently increased to 90% for 2022.
- ▶ Decreased the regulatory Liquidity Ratio from 18% to 15%. Subsequently increased to 16.5% for 2022.
- ▶ Increased the limit for maximum negative cumulative gap for liquidity based on maturity ladders;
- ▶ Released capital conservation buffer of 2.5% of risk-weighted assets in the form of CET1;
- ▶ Decreased the risk weights for lending to Small and Medium Size Entities ("SMEs") from 75% to 25% to be applied in the calculation of risk-weighted assets;
- ▶ Increased the limit for maximum permissible financing (Loans to Deposits Ratio) from 90% to 100% of deposits. Subsequently increased to 95% for 2022.
- ▶ Increased loan-to-value limits for loans granted to individuals for the purpose of purchasing and / or developing properties; and
- ▶ Provision of loans and advances to customers by banks at concessional profit rates to SMEs and other companies impacted by the COVID-19 (Emergency Line of Credit programme).

Expected Credit Loss ("ECL") estimates

The Group considered the potential impact of the continued uncertainties caused by the Covid-19 pandemic together with the associated economic support and relief measures of government and central bank in its estimation of ECL requirements for the year ended 31 December 2021, making adjustments to macroeconomic variables as appropriate. The Group has also given specific consideration to the impact of COVID-19 on the relevant qualitative and quantitative factors when determining any significant increase in credit risk (SICR) and in assessing indicators of impairment for exposures to potentially affected sectors.

Notwithstanding the above, the ECL requirement for credit facilities estimated as at 31 December 2021 continues to be lower than the provisions required as per CBK instructions. Accordingly, in accordance with Group accounting policy, the higher amount, being the provision required as per CBK instructions, is therefore recognized as the provision requirement for credit losses on credit facilities.

Other impacts

The Group has considered potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial and non-financial assets, and these are considered to represent management's best assessment based on available or observable information. Markets however remain volatile, and the recorded amounts remain sensitive to market fluctuations.

BANK DIRECTORY

BANK DIRECTORY

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

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

Deputy of Chief Executive Officer - Commercial Banking & Investment
Mr. Jawad H. Al-Qallaf
 22337888

Deputy of Chief Executive Officer Development Finance
Mrs. Iman N. Al-Salamah
 22337408

Manager, Operation Department

Mrs. Shawqiya M. Towfiqi
 22337003

Manager, Strategic Planning and Monitoring Unit

Mr. Fuad Ali Al Bahrani
 22337901

Project Finance Assessment Department

Mrs. Bashaer Al-Boloshi
 22337102

Head, Financial Planning & Control Unit

Mr. Emad J. Salman
 22337078

Manager, Direct Investment and Promotion Department

Mr. Jamal B. Al-Rumaih
 22337800

Project Finance Relationship Management Department

-
 22337414

Manager, Accounts Department

Mrs. Loulwa M. Al-Attal
 22337355

Manager, Commercial Banking Relationship Management Department

Mr. Abdulaziz M. Qabazard
 22337550

Acting Manager , Al-Senai Portfolio for Small Enterprises

Mrs. Afaf Al Adwani
 22337300

Manager, Information Technology Department

Mr. Basel S. Al-Bader
 22337636

Manager, Commercial Credit Assessment Department

Mr. Mohammad Al-Sayegh
 22337550

Manager, Agriculture Finance Portfolio

Mr. Osama M. Al-Othman
 22337700

Manager, Information Security Unit

Mr. Mustafa Gangardiwala
 22337765

Manager, Treasury and Securities Department

Mr. Nawaf Y. Al-Munafi
 22337070

Manager, Industrial Financing Portfolio according to Islamic Sharia

Mrs. Bashaer Al-Boloshi
 22337102

Manager, Credit Administration Department

Mrs. Haya Al-Ghunaim
 22337504

Chief Risk Officer, Risk Management Department

Mr. Bhaskar Majumdar
 22337420

Manager, Research Department

Mrs. Afaf Al Adwani
 22337300

Supervision Head, Compliance Unit

Mr. Essa Al Amer
 22337064

Manager, Internal Audit Department

Mr. Abdulkarim M. Ibrahim
 22337345

Legal Advisor, Legal Department

Mr. Ashraf Sallam
 22337203

Acting Manager Anti-Money Laundry Department

Mr. Abdul Aziz Al Naqi
 22337505

Board Secretary

Mr. Khalid M. Al-Humoud
 22337577

Human Resources Administration & Department.

-
 22337901

Head, Disclosure Unit

Ms. Farah Al Haron
 22337590



P.O. Box 3146, Safat 13032, Kuwait

Telephone: (+965) 22337000 - 1844446

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

Website: www.ibkuwt.com

Email: ibk@ibkuwt.com

بَنْكُ الْكُوَيْتِ الصَّنَاعِي ش.م.ب.
The Industrial Bank of Kuwait K.S.C.C

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