Industrial Bank of Kuwait

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	bb+
Support Rating	1
Support Rating Floor	A+

Sovereign Risk

Foreign-Currency Long-Term IDR	AA
Local-Currency Long-Term IDR	AA

Outlooks

Foreign-Currency Long-Term Rating	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Industrial Bank of Kuwait

	31 Dec 16	31 Dec 15
Total assets (USDm)	2,144.1	2,056.0
Total assets (KWDm)	656.3	624.0
Total equity (KWDm)	234.4	228.3
Operating profit (KWDm)	11.8	9.5
Published net income (KWDm)	11.6	9.3
Comprehensive income (KWDm)	12.0	7.8
Operating ROAA (%)	1.8	1.5
Operating ROAE (%)	5.1	4.2
Internal capital generation (%)	2.4	1.5
Fitch Core Capital/ weighted risk assets (%)	44.2	47.0
Tier 1 ratio (%)	42.0	45.7

Related Research

2017 Outlook: Gulf Cooperation Council Banks (December 2016)

Asset Quality at GCC Banks: Mind the Gap (October 2016)

Gulf Cooperation Council Banks: 2016 Compendium (September 2016)

Analysts

Redmond Ramsdale
+44 20 3530 1836
redmond.ramsdale@fitchratings.com

Gilbert Hobeika
+44 20 3530 1004
gilbert.hobeika@fitchratings.com

Key Rating Drivers

Support-Driven IDRs: Industrial Bank of Kuwait's (IBK) ratings reflect an extremely high probability of support from the Kuwaiti authorities if required. Fitch Ratings' view of support considers the ability and propensity of Kuwait (AA/Stable) to provide support to IBK given the bank's large state direct ownership (49%), key development mandate and reliance on government funding. Kuwait also has a record of supporting its banking sector.

Unique Company Profile in Kuwait: IBK's Viability Rating (VR) is highly influenced by its company profile as Kuwait's sole development bank. IBK's primary focus is the provision of concessionary medium- and long-term financing for the establishment, expansion and modernisation of private-sector industries. The bank also provides commercial banking, mainly working capital. Therefore, its risk profile differs from that of commercial banks. Nevertheless, IBK is not immune from concentration risk.

Operating Environment Affects Business: The domestic operating environment is not immune to lower oil prices and lower public spending. IBK's ability to originate new business is sensitive to changes in the operating environment, as well as structural challenges in the industrial sector and low interest rates.

Strong Funding Profile: Funding is almost exclusively in the form of a KWD300 million 20-year subordinated loan from the Kuwaiti government, maturing in 2027 and expected to be renewed upon maturity. IBK is restricted from taking retail deposits but can take corporate deposits.

High Loan concentrations: There is little flexibility to change the bank's sensitivity to sector and single borrower loan concentrations given its restricted mandate. At end-2016, the eight largest borrowers accounted for 45% of total loans. This exposes IBK to significant event risk.

Exposure to Market Risk: While IBK's investments are mainly in Kuwait government securities, they also include international managed private equity funds and stakes in local industrial companies, which could lead to volatility in earnings.

Stable Profitability: IBK has maintained stable profitability, as loan growth and increasing margins have offset rising loan impairment charges/average gross loans ratio. IBK's cost/income ratio improved further to 33.7% in 2016.

High Capital Ratios: IBK's solid capital ratios are necessary given the bank's sensitivity to concentration risk and economic cycles.

Rating Sensitivities

Change in Sovereign Support: IBK's IDRs are sensitive to a change in Fitch's assumptions around the Kuwaiti authorities' propensity or ability to provide timely support to the banking sector and/or to the bank. We do not believe there is much likelihood of any change.

Change in Company or Funding Profile: Upside to the VR is contingent on a strengthening of IBK's company profile, leading to improved financial metrics. Downside pressures could arise from the loss of the core government funding, which we consider highly unlikely.

Support

IDR Based on Sovereign Support

Fitch believes the Kuwaiti authorities have a very strong ability to support the banking system given the country's superior financial flexibility, sustained by its sovereign-wealth funds and high revenues, mostly from its hydrocarbon production. This is indicated in Kuwait's sovereign rating of 'AA/Stable'. The moderate size of the Kuwaiti banking system in relation to the country's GDP also underpins the sovereign's ability to support its banking sector.

In Fitch's view, propensity to support the banking sector remains very strong in Kuwait. The Central Bank of Kuwait (CBK) operates a strict regime with hands-on monitoring to ensure the viability of the banks and has acted swiftly in the past to provide support where needed, as was the case when Gulf Bank (A+/Stable) experienced problems in 2009. There is high contagion risk given the small number and high concentration of banks in the system. In addition, any bank failure would entail a significant reputation risk to Kuwait.

Fitch believes that franchise or level of government ownership should not necessarily lead to a difference in banks' Support Rating Floors (SRFs) in the case of Kuwait. Our view is that there is an extremely high probability that any Kuwaiti bank that required support would receive it, irrespective of franchise and ownership. Therefore, all rated banks (with the exception of the flagship bank, National Bank of Kuwait) have their SRF equal to the actual country domestic systemically important banks' (D-SIB) SRF in Kuwait and IBK is no exception.

Operating Environment

Sovereign Rating of 'AA/Stable'

The sovereign rating is underpinned by its exceptionally strong fiscal and external metrics, including the large net foreign assets and the relative low fiscal breakeven oil price. At around USD47/bbl, Kuwait has one of the lowest fiscal breakeven Brent oil prices among Fitch-rated oil exporters. Therefore, Kuwait is more resilient than most Gulf Cooperation Council (GCC) states to the lower oil prices. These strengths are tempered by Kuwait's heavily oil-dependent economy, and weak scores on measures of governance and ease of doing business. Growth will remain dependent on private and public consumption, as well as government capital spending.

The domestic banking system is highly concentrated and interconnected, with the two largest banks, Kuwait Finance House and National Bank of Kuwait, holding more than 55% of total assets. The five largest banks hold more than 80% of system assets. Barriers to entry in the Kuwaiti banking sector are high, with the authorities taking a protective stance towards domestic banks. From March 2014, foreign banks have been allowed to open more than one branch, subject to regulatory approval, but we do not expect a significant increase in competition from this source.

Regulatory Framework

The CBK, which is a hands-on regulator, has implemented regulatory limits to govern single obligor concentration, financing to related parties, liquidity and capital adequacy. On-site visits (both domestically and internationally) are conducted frequently and the CBK has a good oversight of the sector.

Despite its developmental focus, IBK is regulated by the CBK and is largely subject to the same regulations as commercial banks, but with some exceptions. As it has no customer deposit base, it is exempt from regulations stipulating the maximum loans-to-deposits ratio.

Related Criteria

Global Bank Rating Criteria (November 2016)

VR Somewhat Constrained by Narrow Operating Environment

The Kuwaiti economy is largely driven by government spending. Banks remain heavily reliant on government infrastructure projects for credit growth; aside from these projects, financing is largely driven by real-estate and consumer lending. Given the relatively undiversified economy, concentration is high, both in loans and deposits.

Company Profile

IBK was established in 1973 on the initiative of the government of Kuwait to promote domestic industrial development. It is the only development bank in Kuwait and plays a key role in financing Kuwait's industrial sector. The state is IBK's largest shareholder, with its 49% direct ownership comprising its own 31% stake; the CBK holds 13% and the Public Institution for Social Security (PIfSS) 5%. The state owns a further 14% indirectly through Wafra International Investment Company, an investment management company wholly owned by PIfSS. The remaining shares are held by local financial institutions and industrial companies, each with stakes of less than 5%.

Of IBK's ten directors, five are government appointees, reinforcing the links to the state. However, the bank operates relatively independently and has a commercial focus despite its policy role. The bank operates from its head office in the capital and one branch in the Kuwaiti industrial district of Sabhan.

Business Model

IBK offers financing to Kuwaiti industrial enterprises through either medium- and long-term industrial loans (usually ranging from five to seven years, including a two-year grace period) at a preferential 3.5% fixed-rate or commercial loans (largely short-term working capital to industries) that is priced closer to market rates. The loan book has a close 50/50 split between industrial and commercial loans.

Other activities include investments and treasury, aimed at deploying surplus liquidity and diversifying revenues. The bank has expanded in investments, primarily in international private equity, managed by third-party asset managers because of growth constraints in its core business. This activity has been supplemented by the bank taking equity stakes in local industrial companies. On the treasury front, IBK invests in domestic government bonds, and domestic and foreign corporate bonds.

The bank also manages three government trust portfolios that have developmental aims. One is for investing in agricultural development projects, another is for smaller entrepreneurs and artisanal projects, and the third is a sharia-compliant trust for industrial development. Portfolio funds under management totalled KWD235 million at end-2016.

Management and Strategy

Strategy

As a development bank, IBK has a very narrow scope of operations and strategy that can be pursued by its management. Strategic objectives are mostly dictated by the policy role and public mandate of the bank. This has been reflected in previous periods by low credit demand in the industrial sector, which translated into an inability to expand the lending base. This has also pushed IBK to start exploring new opportunities to broaden lending sectors beyond industrial loans, which remains subject to approval from the Kuwaiti government and parliament. Management has a high degree of stability and tenure within the bank across various functions.

Execution

Execution of key objectives is constrained by the business model, lack of lending opportunities and low interest-rate environment (low interest rates mean that commercial banks' rates have fallen and are broadly in line with IBK's concessionary industrial loan rates, and the latter have therefore become uncompetitive). However, we expect IBK's lending to benefit from rising interest rates and from the release of additional industrial classified-lands by the government in 2017. This was partially reflected in 2016 figures.

Corporate Governance

Corporate governance in Kuwait is related to the structure of the economy, where several wealthy family-owned groups have wide business interests and dominate the private sector (including holding stakes in banks). These groups are some of the largest borrowers from banks. Representatives of these families also have a presence on the boards of many banks, raising concerns over board independence and related-party lending.

IBK's corporate governance standards are adequate and lending appears to be driven by business and mandate factors, both backed up by feasibility studies, rather than relationship.

Risk Appetite

Underwriting Standards

IBK's underwriting standards are pre-set by its mandate. The bank only lends to domestic industrial companies. The bank's loan book is split almost evenly between industrial loans and commercial loans. IBK uses the relationships developed by its industrial loans to garner new commercial customers.

Industrial loans are subsidised, generally medium- to long-term, and extended to new industrial projects or the expansion of existing ones. IBK finances up to 65% of any new project's total cost and up to 80% of expansion costs. Loans are secured by a charge on the fixed assets being financed. Interest is charged at a low fixed rate for the duration of the financing. The bank's subsidised lending is domestic.

Commercial loans are offered at market rates. These loans are typically for working-capital facilities and trade finance.

Bridging facilities are offered, pending approval of subsidised loans from the industrial development lending department. The bank performs feasibility studies for new projects and supports clients in the planning stage. IBK is continuously looking for ways to widen the scope of its mandate, which it interprets in relatively broad terms to include lending to investment companies as long as they reinvest the funds in industrial enterprises.

However, the undiversified nature of business and lending leads to unavoidable high sector and single borrower concentration. Therefore, IBK is more sensitive to event risk than domestic commercial banks. The eight largest obligors represented about 45% of total gross loans at end-2016. Nevertheless, IBK has achieved some diversification into several sub-sectors, such as metal products and engineering (27% of gross loans at end-2016), oil and gas (23%), construction and building material (20%), chemicals (8%), food and beverages (6%), and some other sectors (below 5% each).

Most of IBK's investments relate to Kuwaiti government or central bank bonds, which totalled KWD152m (67% of total securities or 23% of total assets) at end-2016; these are held for revenue and liquidity purposes.

IBK also holds KWD70 million of available-for-sale investments (about 11% of total assets at end-2016). These are mostly international exposures and include several private equity funds that are diversified by geography and by asset class. The balance (only KWD5 million) primarily relates to local equity investments made by IBK's subsidiary, Kuwait Industrial Projects Company; as part of IBK's development role, the subsidiary invests directly in local industrial companies.

Risk Controls

In Fitch's view, IBK has reasonably robust credit-risk-management systems and controls. It uses a 10-grade internal rating scale to classify its loan exposures. Internal ratings are reviewed regularly. Other lines of defence include committees to assess the main risks taken by the bank. Like other Kuwaiti banks, IBK is using the standardised approach to credit risk under Basel III.

Growth

Loan growth was positive in 2016 and 2015 (about 14% and 4%, respectively) for the first time since 2009, benefiting from the slightly higher interest rate environment. This trend is unlikely to continue due to the lack of lending opportunities in Kuwait and strong competition by commercial banks. Growth prospects will remain dependent on the interest-rate environment, availability of lands for industrial usage, public administrative procedures and the general operating environment.

Market Risk

Through its investment portfolio, IBK is exposed to market risk, although this remains relatively small. Excess liquidity is managed conservatively by investing in sovereign debt and lending to the interbank market. Available-for-sale assets, exposed to market risk, represent a small fraction of total assets (11% at end-2016). The bank is not actively involved in equity or bond trading and derivatives are only used for hedging purposes.

Interest rate risk is low. IBK is almost exclusively funded by a KWD300 million 20-year loan from the Kuwaiti government. IBK pays a fixed interest rate of 0.5% on the amounts of industrial loan exposures (either disbursed amounts or undrawn commitments) and these loans are granted by the bank at preferential fixed lending rates; margins on industrial loans are therefore not correlated with market rates. IBK pays floating rates on the balance of the KWD300 million loan unused for industrial loans; these funds are deployed in floating-rate commercial loans.

Foreign exchange risk is also limited. About 90% of IBK's assets are denominated in local currency (the balance being principally in USD) and funding is principally in KWD. Foreign-exchange exposures are largely confined to USD/KWD positions and the risks are reduced by the relative stability of the exchange rate, with the dinar pegged to a dollar-dominated basket of currencies.

Asset Quality

Main Asset-Quality Metrics

(%)	End-2016	End-2015	End-2014	End-2013
Growth of gross loans	13.8	4.3	-8.1	-8.1
Impaired loans/gross loans	0.2	0.3	0.5	1.0
Reserves for impaired loans/impaired loans	4,371.4	2,460.0	1,286.7	951.7
Reserves for impaired loans/gross loans	9.1	8.4	6.8	9.0
Loan impairment charges/average gross loans	1.9	1.7	0.8	1.7
Pre-impairment operating profit/average gross loans	6.1	6.0	5.7	5.2

Source: IBK; Fitch

IBK's loan-quality metrics are sound and resilient, as reflected by a very low impaired loans ratio. However, its sensitivity to economic cycles, particularly in the current environment of lower oil prices, and high loan concentrations create risks for quick build-up of problem assets. Reserves for impaired loans are very high, providing further comfort; this is a necessity given IBK's exposure to event risk. Financial investments support sound asset-quality metrics, as they are mainly composed of high quality Kuwaiti government or central bank bonds.

Earnings and Profitability

Main Earnings and Profitability Metrics

(%)	2016	2015	2014	2013
Net interest income/average earning assets	2.7	2.3	2.3	2.3
Non-interest expense/gross revenues	33.7	35.6	36.6	34.6
Loans and securities impairment charges/pre-impairment operating profit	38.5	44.8	33.9	44.3
Operating profit/average total assets	1.8	1.5	1.7	1.4
Operating profit/risk-weighted assets	2.2	2.0	2.3	2.0
Net income/average equity	5.0	4.1	4.6	4.2

Source: IBK; Fitch

Profitability is not the main goal for IBK due to its mandate. Nonetheless, IBK's performance improved in 2016, benefiting from both a volume effect (increase in the loan book) and a margin effect (slightly higher interest rate environment in 2016). Solid cost efficiency (underpinned by the lack of branch network and low staff expenses) continues to support IBK's profitability. On the negative side, loan impairment charges as a proportion of gross loans have been increasing and consume around 40% of the bank's pre-provision operating profit. The Kuwaiti banks' provisioning policy is largely driven by the CBK, which stipulates the amount of precautionary reserves for each bank based on their assessment of the bank's risk profile. We expect IBK to maintain a fairly stable performance in 2017.

Revenues are mainly in the form of net interest income (58% of the total operating income in 2016), while the contribution from net fees and commissions is just 17%. Net gains from investments remained high in 2016, at 24% of total operating income. This component can bring volatility to the bank's results. Ideally, the bank will look to further increase its loan book and contribution of net interest income.

Capitalisation and Leverage

Main Capitalisation and Leverage Metrics

(%)	End-2016	End-2015	End-2014	End-2013
Fitch Core Capital/FCC-adjusted RWAs	44.2	47.0	48.0	48.6
Tangible common equity/tangible assets	35.7	36.6	34.2	34.0
Tier 1 regulatory capital ratio	42.0	45.7	46.3	44.7
Total regulatory capital ratio	43.2	46.9	47.4	69.4
Internal capital generation	2.4	1.5	1.1	1.4

Source: IBK; Fitch

IBK has very high capital ratios by international standards. High ratios are prudent and a necessity in our view given the bank's exposure to concentration risks. IBK's total capital adequacy ratio (CAR) stopped benefiting from the subordinated loan from the state in 2014 with the implementation of Basel III in Kuwait. Despite this, IBK's CAR remains among the highest in the region.

Funding and Liquidity

Main Funding and Liquidity Metrics

(%)	End-2016	End-2015	End-2014	End-2013
Loans/customer deposits	782.0	654.8	451.9	377.2
Interbank assets/interbank liabilities	288.7	1,022.9	183.1	132.5
Customer deposits/total funding (excluding derivatives)	10.5	11.8	14.7	19.5

Source: IBK; Fitch

IBK's funding profile is a rating strength. The bank's licence restricts it from undertaking any form of retail activity, including taking deposits. IBK has some corporate deposits, but these were a low 11% of non-equity funding at end-2016. Depositors are also typically borrowers of the bank.

The vast majority of the bank's funding comes from a long-term KWD300 million subordinated loan from the Kuwaiti government, which matures in 2027. This loan comprised 74% of non-equity funding at end-2016. IBK considers this funding to be virtually perpetual and extensions to the loan are likely due to the bank's state ownership and longstanding development role. The loan provides low-cost funding for the bank's subsidised lending activities. IBK expects deposits to increase as the commercial banking business develops. However, the government loan will remain the main source of its funding.

Balance sheet liquidity is strong, with cash, interbank placements, and Kuwaiti government treasury bills and bonds covering 64% of non-equity funding at end-2016 (244% if excluding the government loan). Most of IBK's liquid assets are in Kuwaiti dinars.

Industrial Bank of Kuwait
Income Statement

	31 Dec 2016			31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Year End USDm Audited - Unqualified	Year End KWDm Audited - Unqualified	As % of Earning Assets	Year End KWDm Audited - Unqualified	As % of Earning Assets	Year End KWDm Audited - Unqualified	As % of Earning Assets	Year End KWDm Audited - Unqualified	As % of Earning Assets
1. Interest Income on Loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2. Other Interest Income	60.4	18.5	2.89	16.7	2.85	16.5	2.56	16.8	2.65
3. Dividend Income	2.3	0.7	0.11	0.7	0.12	0.6	0.09	0.6	0.09
4. Gross Interest and Dividend Income	**62.7**	**19.2**	**3.00**	**17.4**	**2.97**	**17.1**	**2.65**	**17.4**	**2.75**
5. Interest Expense on Customer Deposits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Other Interest Expense	9.1	2.8	0.44	3.2	0.55	3.0	0.47	2.7	0.43
7. Total Interest Expense	**9.1**	**2.8**	**0.44**	**3.2**	**0.55**	**3.0**	**0.47**	**2.7**	**0.43**
8. Net Interest Income	**53.6**	**16.4**	**2.56**	**14.2**	**2.42**	**14.1**	**2.19**	**14.7**	**2.32**
9. Net Gains (Losses) on Trading and Derivatives	1.6	0.5	0.08	(0.4)	(0.07)	0.1	0.02	(0.4)	(0.06)
10. Net Gains (Losses) on Other Securities	21.9	6.7	1.05	8.0	1.36	7.4	1.15	6.2	0.98
11. Net Gains (Losses) on Assets at FV through Income Statement	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
12. Net Insurance Income	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
13. Net Fees and Commissions	15.7	4.8	0.75	4.3	0.73	4.6	0.71	3.9	0.62
14. Other Operating Income	0.3	0.1	0.02	0.0	0.00	(0.5)	(0.08)	0.2	0.03
15. Total Non-Interest Operating Income	**39.5**	**12.1**	**1.89**	**11.9**	**2.03**	**11.6**	**1.80**	**9.9**	**1.56**
16. Personnel Expenses	24.5	7.5	1.17	7.1	1.21	7.4	1.15	6.4	1.01
17. Other Operating Expenses	6.9	2.1	0.33	2.2	0.38	2.0	0.31	2.1	0.33
18. Total Non-Interest Expenses	**31.4**	**9.6**	**1.50**	**9.3**	**1.59**	**9.4**	**1.46**	**8.5**	**1.34**
19. Equity-accounted Profit/ Loss - Operating	1.0	0.3	0.05	0.4	0.07	0.5	0.08	0.6	0.09
20. Pre-Impairment Operating Profit	**62.7**	**19.2**	**3.00**	**17.2**	**2.93**	**16.8**	**2.61**	**16.7**	**2.64**
21. Loan Impairment Charge	19.3	5.9	0.92	4.9	0.84	2.5	0.39	5.4	0.85
22. Securities and Other Credit Impairment Charges	4.9	1.5	0.23	2.8	0.48	3.2	0.50	2.0	0.32
23. Operating Profit	**38.5**	**11.8**	**1.85**	**9.5**	**1.62**	**11.1**	**1.72**	**9.3**	**1.47**
24. Equity-accounted Profit/ Loss - Non-operating	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
25. Non-recurring Income	0.0	0.0	0.00	0.0	0.00	(0.5)	(0.08)	0.0	0.00
26. Non-recurring Expense	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
27. Change in Fair Value of Own Debt	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
28. Other Non-operating Income and Expenses	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
29. Pre-tax Profit	**38.5**	**11.8**	**1.85**	**9.5**	**1.62**	**10.6**	**1.64**	**9.3**	**1.47**
30. Tax expense	0.7	0.2	0.03	0.2	0.03	0.2	0.03	0.2	0.03
31. Profit/Loss from Discontinued Operations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
32. Net Income	**37.9**	**11.6**	**1.81**	**9.3**	**1.59**	**10.4**	**1.61**	**9.1**	**1.44**
33. Change in Value of AFS Investments	1.3	0.4	0.06	(1.4)	(0.24)	1.7	0.26	5.8	0.92
34. Revaluation of Fixed Assets	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
35. Currency Translation Differences	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
36. Remaining OCI Gains/(losses)	0.0	0.0	0.00	(0.1)	(0.02)	0.1	0.02	0.0	0.00
37. Fitch Comprehensive Income	**39.2**	**12.0**	**1.88**	**7.8**	**1.33**	**12.2**	**1.89**	**14.9**	**2.35**
38. Memo: Profit Allocation to Non-controlling Interests	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
39. Memo: Net Income after Allocation to Non-controlling Interests	37.9	11.6	1.81	9.3	1.59	10.4	1.61	9.1	1.44
40. Memo: Common Dividends Relating to the Period	19.6	6.0	0.94	6.0	1.02	8.0	1.24	6.0	0.95
41. Memo: Preferred Dividends Related to the Period	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Exchange rate		USD1 = KWD0.3061		USD1 = KWD0.3035		USD1 = KWD0.2928		USD1 = KWD0.282	

Industrial Bank of Kuwait

Balance Sheet

		31 Dec 2016		31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Year End USDm	Year End KWDm	As % of Assets	Year End KWDm	As % of Assets	Year End KWDm	As % of Assets	Year End KWDm	As % of Assets
Assets									
A. Loans									
1. Residential Mortgage Loans	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
2. Other Mortgage Loans	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Other Consumer/ Retail Loans	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Corporate & Commercial Loans	1,093.4	334.7	51.00	294.0	47.12	282.0	42.22	306.7	46.94
5. Other Loans	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
6. Less: Reserves for Impaired Loans	100.0	30.6	4.66	24.6	3.94	19.3	2.89	27.6	4.22
7. Net Loans	**993.5**	**304.1**	**46.34**	**269.4**	**43.17**	**262.7**	**39.33**	**279.1**	**42.72**
8. Gross Loans	**1,093.4**	**334.7**	**51.00**	**294.0**	**47.12**	**282.0**	**42.22**	**306.7**	**46.94**
9. Memo: Impaired Loans included above	2.3	0.7	0.11	1.0	0.16	1.5	0.22	2.9	0.44
10. Memo: Loans at Fair Value included above	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
B. Other Earning Assets									
1. Loans and Advances to Banks	348.9	106.8	16.27	98.2	15.74	115.0	17.22	48.5	7.42
2. Reverse Repos and Cash Collateral	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Trading Securities and at FV through Income	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Derivatives	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
5. Available for Sale Securities	228.0	69.8	10.64	66.3	10.63	68.3	10.22	66.6	10.19
6. Held to Maturity Securities	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
7. Equity Investments in Associates	21.2	6.5	0.99	6.4	1.03	7.0	1.05	14.7	2.25
8. Other Securities	497.2	152.2	23.19	146.1	23.41	191.8	28.71	224.0	34.28
9. Total Securities	**746.5**	**228.5**	**34.82**	**218.8**	**35.06**	**267.1**	**39.99**	**305.3**	**46.72**
10. Memo: Government Securities included Above	497.2	152.2	23.19	146.1	23.41	191.8	28.71	224.0	34.28
11. Memo: Total Securities Pledged	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
12. Investments in Property	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
13. Insurance Assets	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
14. Other Earning Assets	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
15. Total Earning Assets	**2,088.9**	**639.4**	**97.42**	**586.4**	**93.97**	**644.8**	**96.53**	**632.9**	**96.86**
C. Non-Earning Assets									
1. Cash and Due From Banks	4.9	1.5	0.23	22.6	3.62	7.7	1.15	12.1	1.85
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Foreclosed Real Estate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Fixed Assets	12.4	3.8	0.58	3.8	0.61	3.8	0.57	3.8	0.58
5. Goodwill	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Other Intangibles	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7. Current Tax Assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8. Deferred Tax Assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
9. Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10. Other Assets	37.9	11.6	1.77	11.2	1.79	11.7	1.75	4.6	0.70
11. Total Assets	**2,144.1**	**656.3**	**100.00**	**624.0**	**100.00**	**668.0**	**100.00**	**653.4**	**100.00**
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Customer Deposits - Current	139.8	42.8	6.52	44.9	7.20	62.4	9.34	81.3	12.44
2. Customer Deposits - Savings	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits - Term	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Total Customer Deposits	**139.8**	**42.8**	**6.52**	**44.9**	**7.20**	**62.4**	**9.34**	**81.3**	**12.44**
5. Deposits from Banks	120.9	37.0	5.64	9.6	1.54	62.8	9.40	36.6	5.60
6. Repos and Cash Collateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Commercial Paper and Short-term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. Total Money Market and Short-term Funding	**260.7**	**79.8**	**12.16**	**54.5**	**8.73**	**125.2**	**18.74**	**117.9**	**18.04**
9. Senior Unsecured Debt (original maturity > 1 year)	86.6	26.5	4.04	26.8	4.29	n.a.	-	n.a.	-
10. Subordinated Borrowing	980.1	300.0	45.71	300.0	48.08	300.0	44.91	300.0	45.91
11. Covered Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12. Other Long-term Funding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13. Total LT Funding (original maturity > 1 year)	**1,066.6**	**326.5**	**49.75**	**326.8**	**52.37**	**300.0**	**44.91**	**300.0**	**45.91**
14. Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15. Trading Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16. Total Funding	**1,327.3**	**406.3**	**61.91**	**381.3**	**61.11**	**425.2**	**63.65**	**417.9**	**63.96**
E. Non-Interest Bearing Liabilities									
1. Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2. Credit impairment reserves	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Reserves for Pensions and Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Current Tax Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Deferred Tax Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Other Deferred Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7. Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8. Insurance Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
9. Other Liabilities	51.0	15.6	2.38	14.4	2.31	14.3	2.14	13.2	2.02
10. Total Liabilities	**1,378.3**	**421.9**	**64.28**	**395.7**	**63.41**	**439.5**	**65.79**	**431.1**	**65.98**
F. Hybrid Capital									
1. Pref. Shares and Hybrid Capital accounted for as Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Pref. Shares and Hybrid Capital accounted for as Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
G. Equity									
1. Common Equity	725.9	222.2	33.86	216.5	34.70	215.2	32.22	210.7	32.25
2. Non-controlling Interest	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Securities Revaluation Reserves	39.9	12.2	1.86	11.8	1.89	13.3	1.99	11.6	1.78
4. Foreign Exchange Revaluation Reserves	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
5. Fixed Asset Revaluations and Other Accumulated OCI	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
6. Total Equity	**765.8**	**234.4**	**35.72**	**228.3**	**36.59**	**228.5**	**34.21**	**222.3**	**34.02**
7. Total Liabilities and Equity	**2,144.1**	**656.3**	**100.00**	**624.0**	**100.00**	**668.0**	**100.00**	**653.4**	**100.00**
8. Memo: Fitch Core Capital	765.8	234.4	35.72	228.3	36.59	228.5	34.21	222.3	34.02
Exchange rate		USD1 = KWD0.3061		USD1 = KWD0.3035		USD1 = KWD0.2928		USD1 = KWD0.282	

Industrial Bank of Kuwait
Summary Analytics

	31 Dec 2016 Year End	31 Dec 2015 Year End	31 Dec 2014 Year End	31 Dec 2013 Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	n.a.	n.a.	n.a.	n.a.
2. Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	n.a.	n.a.	n.a.
3. Interest Income/ Average Earning Assets	3.13	2.83	2.73	2.72
4. Interest Expense/ Average Interest-bearing Liabilities	0.71	0.79	0.72	0.62
5. Net Interest Income/ Average Earning Assets	2.68	2.31	2.25	2.30
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	1.71	1.51	1.85	1.45
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	2.68	2.31	2.25	2.30
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	42.46	45.59	45.14	40.24
2. Non-Interest Expense/ Gross Revenues	33.68	35.63	36.58	34.55
3. Non-Interest Expense/ Average Assets	1.50	1.44	1.43	1.28
4. Pre-impairment Op. Profit/ Average Equity	8.30	7.53	7.46	7.70
5. Pre-impairment Op. Profit/ Average Total Assets	3.00	2.66	2.56	2.52
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	38.54	44.77	33.93	44.31
7. Operating Profit/ Average Equity	5.10	4.16	4.93	4.29
8. Operating Profit/ Average Total Assets	1.84	1.47	1.69	1.41
9. Operating Profit / Risk Weighted Assets	2.23	1.95	2.33	2.03
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	5.01	4.07	4.62	4.20
2. Net Income/ Average Total Assets	1.81	1.44	1.59	1.38
3. Fitch Comprehensive Income/ Average Total Equity	5.19	3.42	5.42	6.87
4. Fitch Comprehensive Income/ Average Total Assets	1.87	1.21	1.86	2.25
5. Taxes/ Pre-tax Profit	1.69	2.11	1.89	2.15
6. Net Income/ Risk Weighted Assets	2.19	1.91	2.18	1.99
D. Capitalization				
1. FCC/FCC-Adjusted Risk Weighted Assets	44.23	46.96	47.95	48.55
2. Tangible Common Equity/ Tangible Assets	35.72	36.59	34.21	34.02
3. Tier 1 Regulatory Capital Ratio	42.04	45.71	46.27	44.72
4. Total Regulatory Capital Ratio	43.20	46.89	47.42	69.37
5. Common Equity Tier 1 Capital Ratio	42.04	45.71	46.27	n.a.
6. Equity/ Total Assets	35.72	36.59	34.21	34.02
7. Cash Dividends Paid & Declared/ Net Income	51.72	64.52	76.92	65.93
8. Internal Capital Generation	2.39	1.45	1.05	1.39
E. Loan Quality				
1. Growth of Total Assets	5.18	(6.59)	2.23	(2.46)
2. Growth of Gross Loans	13.84	4.26	(8.05)	(8.09)
3. Impaired Loans/ Gross Loans	0.21	0.34	0.53	0.95
4. Reserves for Impaired Loans/ Gross Loans	9.14	8.37	6.84	9.00
5. Reserves for Impaired Loans/ Impaired Loans	4,371.43	2,460.00	1,286.67	951.72
6. Impaired loans less Reserves for Impaired Loans/ Fitch Core Capital	(12.76)	(10.34)	(7.79)	(11.11)
7. Impaired Loans less Reserves for Impaired Loans/ Equity	(12.76)	(10.34)	(7.79)	(11.11)
8. Loan Impairment Charges/ Average Gross Loans	1.88	1.70	0.84	1.69
9. Net Charge-offs/ Average Gross Loans	n.a.	n.a.	n.a.	n.a.
10. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	0.21	0.34	0.53	0.95
F. Funding and Liquidity				
1. Loans/ Customer Deposits	782.01	654.79	451.92	377.24
2. Interbank Assets/ Interbank Liabilities	288.65	1,022.92	183.12	132.51
3. Customer Deposits/ Total Funding (excluding derivatives)	10.53	11.78	14.68	19.45
4. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.

Industrial Bank of Kuwait
Reference Data

		31 Dec 2016		31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Year End USDm	Year End KWDm	As % of Assets	Year End KWDm	As % of Assets	Year End KWDm	As % of Assets	Year End KWDm	As % of Assets
A. Off-Balance Sheet Items									
1. Managed Securitized Assets Reported Off-Balance Sheet	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
2. Other off-balance sheet exposure to securitizations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Guarantees	180.3	55.2	8.41	63.4	10.16	50.2	7.51	52.6	8.05
4. Acceptances and documentary credits reported off-balance sheet	79.1	24.2	3.69	20.6	3.30	16.6	2.49	23.6	3.61
5. Committed Credit Lines	442.7	135.5	20.65	134.3	21.52	134.3	20.10	124.3	19.02
7. Other Off-Balance Sheet items	150.6	46.1	7.02	47.4	7.60	34.4	5.15	52.4	8.02
8. Total Assets under Management	767.4	234.9	35.79	229.9	36.84	236.1	35.35	240.5	36.80
B. Average Balance Sheet									
Average Loans	1,027.1	314.4	47.90	288.0	46.15	296.0	44.31	320.2	49.01
Average Earning Assets	2,002.3	612.9	93.39	615.6	98.65	625.8	93.68	640.5	98.03
Average Assets	2,091.5	640.2	97.55	646.0	103.53	656.1	98.22	661.7	101.27
Average Managed Securitized Assets (OBS)	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Average Interest-Bearing Liabilities	1,286.5	393.8	60.00	403.3	64.63	415.2	62.16	432.7	66.22
Average Common equity	716.8	219.4	33.43	215.9	34.60	212.6	31.83	208.2	31.86
Average Equity	756.0	231.4	35.26	228.4	36.60	225.2	33.71	216.9	33.20
Average Customer Deposits	143.4	43.9	6.69	53.7	8.61	67.4	10.09	104.9	16.05
C. Maturities									
Asset Maturities:									
Loans & Advances < 3 months	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Loans & Advances 3 - 12 Months	453.7	138.9	21.16	148.9	23.86	119.1	17.83	132.0	20.20
Loans and Advances 1 - 5 Years	494.7	151.4	23.07	108.6	17.40	133.3	19.96	131.2	20.08
Loans & Advances > 5 years	45.2	13.8	2.11	11.9	1.91	10.3	1.54	15.9	2.43
Debt Securities < 3 Months	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Securities 3 - 12 Months	233.4	71.4	10.88	94.2	15.10	132.3	19.81	152.4	23.33
Debt Securities 1 - 5 Years	214.2	65.6	9.99	38.9	6.23	44.5	6.65	47.6	7.29
Debt Securities > 5 Years	49.8	15.3	2.32	13.0	2.08	15.0	2.25	24.0	3.67
Loans & Advances to Banks < 3 Months	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks 3 - 12 Months	349.0	106.8	16.28	98.2	15.74	115.0	17.22	48.5	7.43
Loans & Advances to Banks 1 - 5 Years	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Loans & Advances to Banks > 5 Years	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Liability Maturities:									
Retail Deposits < 3 months	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Retail Deposits 3 - 12 Months	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Retail Deposits 1 - 5 Years	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Retail Deposits > 5 Years	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Other Deposits < 3 Months	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Deposits 3 - 12 Months	139.9	42.8	6.52	29.7	4.76	47.7	7.14	48.0	7.34
Other Deposits 1 - 5 Years	0.0	0.0	0.00	15.2	2.43	14.6	2.19	33.3	5.09
Other Deposits > 5 Years	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Deposits from Banks < 3 Months	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deposits from Banks 3 - 12 Months	121.0	37.0	5.64	9.6	1.53	62.8	9.40	36.6	5.61
Deposits from Banks 1 - 5 Years	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Deposits from Banks > 5 Years	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Senior Debt Maturing < 3 months	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Senior Debt Maturing 3-12 Months	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Senior Debt Maturing 1- 5 Years	86.6	26.5	4.04	26.8	4.29	0.0	0.00	0.0	0.00
Senior Debt Maturing > 5 Years	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Total Senior Debt on Balance Sheet	86.6	26.5	4.04	26.8	4.29	0.0	0.00	0.0	0.00
Fair Value Portion of Senior Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing < 3 months	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Subordinated Debt Maturing 3-12 Months	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Subordinated Debt Maturing 1- 5 Year	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Subordinated Debt Maturing > 5 Years	980.1	300.0	45.71	300.0	48.08	300.0	44.91	300.0	45.91
Total Subordinated Debt on Balance Sheet	980.1	300.0	45.71	300.0	48.08	300.0	44.91	300.0	45.91
Fair Value Portion of Subordinated Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
D. Risk Weighted Assets									
1. Risk Weighted Assets	1,731.1	529.9	80.74	486.2	77.92	476.5	71.33	457.9	70.08
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk Weighted Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Fitch Core Capital Adjusted Risk Weighted Assets	1,731.1	529.9	80.74	486.2	77.92	476.5	71.33	457.9	70.08
4. Other Fitch Adjustments to Risk Weighted Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Fitch Adjusted Risk Weighted Assets	1,731.1	529.9	80.74	486.2	77.92	476.5	71.33	457.9	70.08
E. Equity Reconciliation									
1. Equity	765.8	234.4	35.72	228.3	36.59	228.5	34.21	222.3	34.02
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Add: Other Adjustments	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Published Equity	765.8	234.4	35.72	228.3	36.59	228.5	34.21	222.3	34.02
F. Fitch Core Capital Reconciliation									
1. Total Equity as reported (including non-controlling interests)	765.8	234.4	35.72	228.3	36.59	228.5	34.21	222.3	34.02
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Goodwill	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
5. Other intangibles	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
6. Deferred tax assets deduction	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
7. Net asset value of insurance subsidiaries	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
8. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
9. Fitch Core Capital	**765.8**	**234.4**	**35.72**	**228.3**	**36.59**	**228.5**	**34.21**	**222.3**	**34.02**
Exchange Rate		USD1 = KWD0.3061		USD1 = KWD0.3035		USD1 = KWD0.2928		USD1 = KWD0.282	

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.