

Risk Management Disclosures 2019

Bhaskar Majumdar
Chief Risk Officer
Risk Management Department
The Industrial Bank of Kuwait

Risk Management Disclosures per Basel III Pillar III - 31.12.2019

Risk Management Objectives:

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

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

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

Risk Management Structure:

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

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

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

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

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

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

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

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

The Financial Environment and regulation: During 2019 Kuwait Manufacturing business volumes and margins remained flat and the pressures in the system and the Bank’s customers continued, though at lower levels than in the previous years since the downturn and discretionary provisions continued to be taken. The interest rates in Kuwait are gradually rising after a long period of low rates. The crude oil prices appeared to be volatile, hovering between USD60-USD80 per barrel.

A new set of tolerance levels were built into a new upgraded risk appetite statement. Stress tests were periodically conducted internally during the course of the year. External experts assessed the Bank and its mandate, the risk management department of the bank and the Bank’s systems, management, plans and strategies and independently conducted stress tests. The Bank did not fail these independent tests in any of the categories and criteria assessed. Following this work and discussion with the expert group, the Bank was able to confirm that its capital position and resources, after exposure to the stress, were expected to continue to meet the CBK’s capital requirements.

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

Risk Rating by External Rating Agencies:

During 2019, the international rating agency Fitch reaffirmed the rating of the Industrial Bank of Kuwait as shown below:

Fitch Ratings:

Foreign Currency

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

Sovereign Risk

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

Outlooks

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

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

The rating agency 'Capital Intelligence' reaffirmed their existing rating of IBK at AA- for 2019 with a 'Stable' outlook. Their summary rating is as follows:

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

Basel III Pillar 3 Consolidated Disclosures:

Overview of Basel III and Pillar 3:

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

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

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

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

As per the guidelines of the Central Bank of Kuwait, the Bank's Pillar I capital adequacy calculations are based on the Standardized approach. For stress testing purposes, however the Bank uses an internal modeling methodology, which is specifically designed for large credit exposures, which constitutes the main business line of the Bank, as under its mandate it cannot have retail or real estate exposures. Stress tests are simultaneously carried out as per parameters and scenarios provided by the Central Bank of Kuwait. Stress test submissions are made based on both internal and regulatory methodologies.

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

Capital Risk Management:

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

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

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

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

For Pillar I regulatory capital adequacy calculations, the Bank has adopted the Standardized approach of Basel III, as recommended by the Central Bank of Kuwait in determining the capital required for each component of credit, market and operational risk. As the Bank is a specialized development bank which also offers commercial banking facilities to its customers, it has long term support from the Government of Kuwait. This, together with its significant disclosed reserves, makes its available capital substantially in excess of the minimum requirements of Basel III even after taking into account the additional requirements of ICAAP under the new Pillar II and buffers determining economic capital. With the planned expansion of the asset portfolio as per the Bank's three year strategic plan, the capital adequacy ratio is expected to remain substantially above minimum regulatory requirements and economic capital estimates in the foreseeable future. This strong capitalization provides a cushion against low diversification opportunities due to the government mandate to service and develop the industrial sector in Kuwait. The overall capital adequacy ratio based on Basel III, was 42.71% as on December 31 2019.

Capital Structure and Adequacy:

In addition to the paid-up capital of KD 20 million and significant disclosed voluntary reserves, the principal corpus of long term funds for the Bank is a renewable long term loan of Kuwaiti Dinars (“KD”) 300 Million (= USD 990 Million approx..) from the Government of Kuwait first given through an Amiri decree in 1973, from which the Bank’s Projects Division provides medium and long term project finance to its industrial borrowers at concessionary pricing.

Subsidiaries:

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

Capital Structure – 31st December 2019 (All figures in KD’000)

Total Tier - 1 Capital			236713
Capital			20,000
Reserves			
	Legal reserves	37,170	
	Voluntary reserves	141459	
	Fair value reserve	0	
	Retained Earnings	38084	216713
Total Tier - 2 Capital			6707
General Provision as allowed			6707
Total eligible capital after deductions			243420

Capital Structure Disclosure - 31st December 2019 (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	218	0
2	Claims on Sovereigns	101231	0
3	Claims on International Orgns	0	
4	Claims on PSE	0	
5	Claims on MDB	0	
6	Claims on Banks	157305	31461
7	Claims on Corporates	374766	374766
8	Claims on Securitized Assets	0	0
9	Credit Derivative Claims	0	0
10	Regulatory Retail	0	0
11	Past Due Exposures	1291	934
12	Other Exposures	129395	129395
	Total Exposure	764206	536556
	Less General Provision		-18741
	Total Credit Risk Exposure		517815
	Minimum Capital Requirements for Credit Risk		67316
Capital Requirements for Market Risk			
	Total Market Risk Weighted Exposure		602
	Minimum Capital required		78
Capital Requirements for Operational Risk			
	Total Operational Risk Weighted Exposure		51,525
	Minimum Capital required		6,698
Total Risk Weighted Exposure			
	Total Min Capital requirement (Cr Risk + Mkt Risk + Op Risk)		74092
Eligible Tier - 1 Capital			
	Eligible Tier - 2 Capital		236713
	Total Eligible Capital		6707
	Unused Capital		243420
	Capital Adequacy Ratio as per Basel - III		169328
	Capital Adequacy Ratio based on Tier - 1 capital		42.71%
	CET - 1 Capital Adequacy Ratio		41.53%

Financial Leverage Ratio: The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio is intended to (1) restrict the build-up of leverage in the banking

sector to avoid destabilizing deleveraging processes that can damage the broader financial system and the economy; and (2) reinforce the risk-based requirements with a simple, non-risk based “backstop” measure.

The Basel Committee is of the view that a simple leverage ratio framework is critical and complementary to the risk-based capital framework; and a credible leverage ratio is one that ensures broad and adequate capture of both the on- and off-balance sheet sources of banks’ leverage. The Basel III leverage ratio is defined as the capital measure (the numerator, Tier I capital) divided by the exposure measure (the denominator), with this ratio expressed as a percentage: $\text{Leverage ratio} = \text{Capital measure} / \text{Exposure measure} (\%)$. For Kuwait the minimum regulatory leverage ratio is 3%.

IBK Leverage Ratio December 31 2019 - Consolidated

S.No.	Item	Leverage ratio Framework (KD '000)
On-balance sheet exposures		
1.	On-balance sheet items	685,141
2.	(Amounts of assets deducted when calculating the T1 of the capital)	0
3.	Total On-balance sheet exposures	685,141
Derivative Exposures		
4.	Gross Exposure (including the amount of additional factor)	909
5.	(Adjustments)	900
6.	Total derivative exposures	9
Securities financing transaction exposures		
7.	SFT Assets	0
8.	Total securities financing transaction exposures	0
Off Balance sheet items		
9.	Commitments	134,517
10.	(Adjustments for conversion to credit equivalent amounts)	(107,614)
11.	Total Commitments	26,903
12.	Contingencies	84,717
13.	(Adjustments for conversion to credit equivalent amounts)	(46,869)
14.	Total Contingencies	37,848
15.	Total Off Balance sheet items	64,760
Capital & Total Exposures		
16.	Tier 1 Capital	236,713
17.	Total Exposures	749,901
Leverage Ratio		
18.	Basel III Leverage Ratio	31.57%

Credit Risk Management:

Credit risk is the risk of suffering financial loss should any of the Bank's customers or market counterparties fail to fulfill their contractual obligations to the Bank. The granting of credit is one of the Bank's major 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 31.12.2019		
Past Due Category	Outstanding amount (KD '000)	% of Total Past Dues
0 ≤ 30	13,513	88.31%
31 ≤ 90	72	0.47%
91 ≤ 180	553	3.61%
181 ≤ 364	575	3.76%
1 year (365) ≤ 3 year	2	0.01%
Above 3 years	586	3.83%
Total	15,302	100.00%

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

B. Sovereign Exposures:

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

C. Information on Credit Exposures as on 31.12.2019 (All figures in KD'000)

Disclosure on Total Credit Risk Exposure (Funded & Non - Funded) Asset Category-wise Report: 31.12.2019			
Asset Category	Funded Credit Risk Exposure	Non - Funded Risk Exposure	Total Credit Risk Exposure
Cash Items	218	0	218
Claims on Sovereigns	101,222	9	101,231
Claims on International organizations			
Claims on PSEs			
Claims on MDBs			
Claims on Banks	157,305	0	157,305
Claims on Corporates	325,223	54,286	379,509
Claims on Securitized Assets			
Credit Derivative claims			
Regulatory Retail			
Past Due Exposures	1,163	128	1,291
Other Assets	116,506	12,889	129,395
Total Credit Risk Exposure	701,637	67,312	768,949

Geographical Distribution of Exposures as on: 31st December 2019 (All figures in KD '000')

Geography	Total Loans and Advances				Loans & Advances: Industrial Loan				Loans & Advances: Commercial Facilities			
	Dec 2019		Dec 2018		Dec 2019		Dec 2018		Dec 2019		Dec 2018	
Kuwait	420,898	100%	443,012	99.29%	159,789	100%	177,698	100%	261,109	100%	265,313	98.82%
Others	0	0%	3,170	0.71%	0	0%	0	0%	0	0%	3,170	1.18%
Grand Total	420,898	100%	446,183	100%	159,789	100%	177,698	100%	261,109	100%	268,483	100%

Residual Maturity of the Loans and Advances Portfolio as on 31st December 2019 (All figures in KD'000)

Category	Total Portfolio		Industrial Loan at encouraged rates		Loans & Advances at Commercial rate	
	Dec 2019	Dec 2018	Dec 2019	Dec 2018	Dec 2019	Dec 2018
Up to 1 Month	54,342	41,059	28,854	18,316	25,487	22,743
1 to 3 Month	91,461	60,791	5,119	1,511	86,342	59,281
3 to 12 Month	69,028	90,154	20,434	20,973	48,596	69,181
Over 1 Year	169,295	186,257	144,343	155,949	24,952	30,308
Balance at Year end	384,126	378,261	198,750	196,749	185,377	181,513

Loans and Advances Portfolio by Sector as on 31st December 2019 (Outstanding Balances in KD'000)

Sector	Outstanding Balance (KD'000)	As a % of Total Exposure	Outstanding Balance (KD'000)	As a % of Total Exposure
	2018		2019	
Chemicals	19,449	4.39%	20,475	4.86%
Food & Beverages	39,596	8.94%	22,446	5.33%
Metal Products & Engineering	158,607	35.80%	155,901	37.04%
Construction & Building Material	79,759	18.00%	80,659	19.16%
Furniture	5,034	1.14%	7,442	1.77%
Textile	489	0.11%	557	0.13%
Paper & Printing	11,697	2.64%	10,204	2.42%
Government	0	0.00%	0	0.00%
Oil and Gas	124,599	28.13%	119,599	28.42%
Agriculture and Fishing	1,567	0.35%	0	0.00%
Others (Non-Financial)	0.00	0.00%	0	
Total Non-Financial Sectors	440,797	99.50%	417,283	99.14%
Financial Sectors	2,216	0.50%	3,616	0.86%
Total Sectors	443,013	100.00%	420,899	100.00%

Impaired Loans – Geographical Distribution as on 31st December 2019 (All figures in KD '000)

Geography	Outstanding loans		Provision provided for impaired loans	
	2019	2018	2019	2018
Kuwait	1,164	11,335	586	2,473
Other GCC countries	0	0	0	0
Grand total	1,164	11,335	586	2,473
Impaired loans as a percentage of outstanding loans portfolio	0.35%	3.21%		
Coverage percentage			50.37%	21.81%

Credit risk mitigation

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

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

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

Credit Risk Concentration: The Bank's charter limits its customer-base to manufacturing industries specifically to entities holding industrial license. 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 cyclicalality.

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

Credit Exposure after Credit Risk Mitigation (CRM) and credit conversion factor: 31.12.2019 (All figures in KD '000)			
Asset Categories	Credit Exposure before CRM	Credit Exposure after CRM	Credit Risk Weighted Assets
Cash Items	218	218	0
Claims on Sovereigns	101,231	101,231	0
Claims on International organizations		0	0
Claims on PSEs		0	0
Claims on MDBs		0	0
Claims on Banks	157,305	157,305	31,461
Claims on Corporates	379509	374766	374766
Claims on Securitized Assets		0	0
Credit Derivative claims		0	0
Regulatory Retail		0	0
Past Due Exposures	1,291	1,291	934
Other Assets	129395	129395	129395
Total Credit Risk Exposure	768949	764206	536556

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

Market Risk Management:

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

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

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

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

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

Market risk for trading portfolio and foreign exchange exposures: The Bank currently does not have a proprietary trading portfolio of any significance in foreign exchange or money market

instruments. It does not have derivative trading exposures or exposures in commodities. However, all forward foreign exchange swap positions, used for hedging Bank's position have been considered as part of derivative exposures.

Market Risk

Industrial Bank of Kuwait		
Disclosure on Market Risk - Capital Requirements as on 31.12.2019 (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	602	78
Note: The figures are matched with Capital Adequacy computations. The Bank does not have any exposures in the trading book		

Equity position in the banking book:

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

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

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

Differentiation is made between the component of the portfolio which has been made with the objective of making capital gains and those that have been made for strategic reasons mentioned

above. It is recognized that equity investments carry considerable downside risk as well as expectation of high returns. Risk Management rates all investments made by the Direct Investments and Promotions department using a rating methodology for private equity developed internally by the risk management department.

Interest Rate Risk Management:

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

The 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 2019	
(All figures in KD '000)	
Description	Total Weighted Value
Notional Exposure of Foreign Exchange Forward Contracts	909
Positive MTM	0
As on 31st December 2019, the Bank does not have outstanding Foreign Exchange Forward Contracts	

Interest rate risk in the banking book

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

Interest Rate Sensitivity – 31 st December 2019 (Currency: KD) (All figures in KD '000)			
	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	230,358	145,556	27,053
Interest Bearing Liabilities	23,476	0	237,999
GAP	206,882	145,556	(210,946)
Cumulative GAP	206,882	352,437	141,491
Sensitivity to 1% interest rate change in the next 1 year			1,415
Interest Rate Sensitivity – 31 st December 2019 (Foreign Currency: USD) (All figures in KD '000)			
	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	7,538	0	0
Interest Bearing Liabilities	44,597	15,293	0
GAP	(37,059)	(15,293)	0
Cumulative GAP	(37,059)	(52,353)	(52,353)
Sensitivity to 1% interest rate change (in KD terms, after conversion)			(524)
Overall Interest Rate Sensitivity (Combine Position) for 1% Interest Rate Change			891

Liquidity Risk Management:

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

Liquidity risks are managed by monitoring asset liability maturity mismatch gaps and target liquidity ratios. The Bank's liquidity, both in local and foreign currency remained comfortable in 2019. The Bank continued to build relationships with Kuwaiti institutions who are in a

position to lend in foreign currency. Thus a diversified fund sourcing base is available. These risks are monitored by Risk Management and collectively assessed through the Assets and Liabilities Management Committee (ALCO). The Bank adheres to the guidelines of the Central Bank of Kuwait with regard to liquidity management.

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

Disclosure on Liquidity Coverage Ratio (LCR): Based on the CBK guidelines on Liquidity Coverage Ratio, the LCR disclosure for the period ended 31.12.2019 is as under:

Group	ID	Description	Values (KD'000)	Values After Flow Rates (KD'000)
HIGH QUALITY LIQUID ASSETS	1	TOTAL HIGH QUALITY LIQUID ASSETS (BEFORE REVISIONS)		103,569
CASH OUTFLOWS	2	RETAIL DEPOSITS AND SMES:	20,289	4,545
	3	> STABLE DEPOSITS	0	0
	4	> LESS STABLE DEPOSITS	14,556	3,265
	5	OTHER UNSECURED DEPOSITS AND FUNDS FROM WHOLESALE FUNDING EXCLUDING DEPOSITS OF SMES CUSTOMERS:	47,654	34,481
	6	> OPERATIONAL DEPOSITS	0	0
	7	> NON-OPERATIONAL (OTHER UNSECURED FUNDING)	47,654	34,481
	8	SECURED FUNDING		
	9	OTHER CASH OUTFLOWS, INCLUDING:	138,433	33,088
	10	> FROM DERIVATIVES	0	0
	11	> FROM ASSET-BACKED SECURITIES AND COMMERCIAL PAPERS (ASSUMING NON-FEASIBILITY OF RE-FINANCING)	0	0
	12	> COMMITTED CREDIT AND LIQUIDITY DRAWBACKS	138,433	33,088
	13	OTHER PROSPECTIVE FUTURE FUNDING OBLIGATIONS	84,352	4,218
	14	OTHER CASH CONTRACTUAL OUTFLOWS	5	5
	15	TOTAL CASH OUTFLOWS		76,337
CASH INFLOWS	16	SECURED LENDING TRANSACTIONS	0	0
	17	CASH INFLOWS FROM PERFORMING LOANS	341,980	170,990
	18	OTHER CASH INFLOWS	3,539	3,539
	19	TOTAL CASH INFLOW	345,519	174,529
LIQUIDITY COVERAGE RATIO	20	TOTAL HIGH QUALITY LIQUID ASSETS (AFTER REVISIONS)		103,569
	21	NET CASH OUTFLOWS		19,084
	22	LIQUIDITY COVERAGE RATIO		546.59%

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

Table 4: NSFR Common Disclosure Template for the period ending on: 31.12.2019 (All values in KD '000)						
Unweighted Values (before applying relevant factors)						
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	243420				243420
3	* Other Capital Instruments	-	-	-	-	-
4	Retail Deposits and Deposits from small business customers :					
5	* Stable Deposits	-	-	-	-	-
6	* Less Stable Deposits	11,477	543	-	-	489
7	Wholesale funding:					
8	* Operational Deposits	-	-	-	-	-
9	* Other wholesale funding	13,473	48,217	9,092	345,598	354,055
10	Other Liabilities:					
11	* NSFR Derivative Liabilities	-	-	-	-	-
12	* All other liabilities not included in the above categories	62,869	15,951	-	-	-
13	Total ASF	331238.06	64,711	9,092	345,598	597964
Required Stable Funding (RSF):						
14	Total NSFR high - quality liquid assets (HQLA)	99,750	-	-	-	4,988
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing Loans & Securities:					
17	* Performing Loans to financial institutions secured by Level 1 HQLA	7,981	112,500	-	-	11,250
18	* Performing loans to financial institutions secured by non - Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
19	* Performing loans to non - financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	1,172	150,759	48,072	136,523	235,939
20	** With a risk weight of less than or equal to 35% as per Capital Adequacy Ratio - Basel 3 Guidelines	-	-	-	-	-
21	* Performing residential mortgages, of which:	-	-	-	-	-

22	** With a risk weight of less than or equal to 35% under CBK Capital Adequacy Ratio - Basel III Guidelines	-	-	-	-	-
23	* Securities that are not in default and do not qualify as HQLA, including exchange - traded equities	-	-	-	-	-
24	Other Assets:					
25	* Physical traded commodities, including gold	-	-	-	-	-
26	* Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
27	* NSFR derivative assets	-	-	-	-	-
28	* NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
29	* All other assets not included in the above categories	-	7,265	-	132,988	136,620
30	Off - Balance Sheet Items	-	84,640	-	-	4,232
31	Total RSF	108,903	355,164	48,072	269,511	393,029
32	NSFR (%)					152.14% %

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

Operational Risk Management:

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

The Bank's operational risk management framework aims to:

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

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 FY2019 is: KD 6.698 Millions.

Disclosure on Operational Risk (Using Standardized Approach) as on 31st December 2019	
Description	Value(KD '000)
Total Operational Risk Weighted Assets	51,525
Total Capital Charge	6,698
Methodology: Based on the average of last 3 years gross income, the approach as suggested by Central Bank of Kuwait / Basel - III	

Anti-Money Laundering Policies:

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

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

The Bank is required to obtain from its customers, copies of the licence and registration at the time of opening customer accounts. The Bank follows Know Your Customer ("KYC") processes, and the identity of the Bank's customers is established ab initio through official documents as above. Customer records are preserved for a period of 5 years after the termination of the banking relationship. Suspicious transactions are tracked. Staff training and awareness programs are conducted from time to time. The Bank has implemented a state of the art automated anti-money laundering system to track and 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, who are 20 in number, are eligible for long term variable incentives. There were no sign-on awards provided to any staff.

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

Remuneration paid in 2019 (in KD)

Category 1: 2 employees

Fixed

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

Variable

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

Category 2: 7 employees

Fixed

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

Variable

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

Category 3: 5 employees

Fixed		
Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
231,484	10,483	3,249
Variable		
Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
	64,922	