Risk Management Disclosures 2020

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The Industrial Bank of Kuwait

Classification: **PUBLIC**

Risk Management Disclosures per Basel III Pillar III - 31.12.2020

Risk Management Objectives:

The Industrial Bank of Kuwait has clear risk management objectives and a well-established strategy to deliver them through core risk management processes under the guidelines of the Central Bank of Kuwait. The Risk Management Department's objectives, in coordination with business lines, are:

- To identify the Bank's material risks, financial and non-financial.
- To formulate the Bank's risk appetite and ensure that business profile and plans are consistent with it.
- To optimize risk/return decisions by dialogue with business, while establishing a strong and independent review process and structure.
- To adhere to regulatory guidelines relating to risk management.
- To ensure that business growth and strategic plans are properly supported by effective risk assessment.
- To monitor risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions.
- To assist business and support functions improve the control and co-ordination of risk taking across the Bank and transfer through insurance risks that cannot be managed internally.
- To manage information security and cyber risks
- To promote a culture of risk awareness throughout the organization.

Risk Management Structure:

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

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

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

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

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

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

Stress Testing: A fundamental duty of the risk management department is to ensure that the Bank does not neglect to prepare for the worst event as they plan for growth. Stress testing helps the Bank understand how its portfolios would react if business conditions became significantly more challenging. Risk Management generates specific forward-looking scenarios and 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: 2020 was a very unusual year for the world at large. The Kuwaiti economy was affected by both a plunge in oil prices and domestic lockdowns. Reduced global demand kept oil prices subdued, causing noticeable deterioration in Kuwait's current and fiscal accounts which permeated to the economy. Pandemic-driven social distancing measures from March affected the services sector, in particular. The manufacturing sectors which is the mainstay of the Bank was less affected and was helped by CBK policies that were adopted. There was an early panic and concern that was built into stress tests that created concerns. However these worst-case scenarios did not transpire and there were signs of revival.

CBK took a range of measures for the pandemic challenges. The discount rate was reduced twice in March to ease the financial conditions. The policy rate was cut by a cumulative 1.25 percentage points, bringing it down to 1.5%. CBK also relaxed a number of prudential limit such as the liquidity coverage (LCR) and net stable funding (NSFR) ratios from 100% to 80%, curtailing the regulatory liquidity ratio from 18% to 15% and relaxing the maturity ladder limits.

CBK enabled banks to extend loans by increasing their maximum lending limit, releasing the capital conservation buffer and bringing down the credit-risk weight for SME [small and medium-size enterprise] lending from 75% to 25%. Customers affected by Covid-19 were allowed to delay payments up to six months, subsequently extended, without any penalty, in order to mitigate borrowers' liquidity. In some way, with roll over program in place, the credit portfolio were not adversely affected, some effect might flow forward into 2021. The investment portfolio was adversely affected during the early pandemic period but retraced itself as markets recovered. As per IFRS9 rules, as investment valuation losses are booked straight into Profit and Loss (P&L) account, P&L was affected but recovered later as the market valuations improved.

The Bank took early action on business continuity and resilience. Pandemic procedures were put in place and strictly implemented. Work from home became the norm supported by VPN connections and business meetings moved to virtual platforms. It was a learning experience for all but the risk management department was at the center of it all. This was because, firstly, the regulatory data extraction, analysis and reporting multiplied requiring great coordination between departments. Further, special pandemic stress tests required to be conducted with feedback from customer-facing departments. Special pandemic procedures were constructed based on international and KBA guidelines and strictly implemented. Business continuity and disaster recovery drills were successfully conducted.

Risk Rating by External Rating Agencies:

During 2020, 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	A1
Financial Strength	bbb+
Support	3
Outlook – Foreign Currency	Stable
Outlook – Financial Strength	Stable

Basel III Pillar 3 Consolidated Disclosures:

Overview of Basel III and Pillar 3:

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

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

- Pillar 2 allows firms and supervisors to take a view on whether the firm should hold additional capital to cover the three Pillar 1 risk types, or to cover other risks. A firm' 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 itis 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 44.61% as on December 31 2020.

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 2020 (All figures in KD'000)

Total Tier - 1 Capital			**243041**
Capital			20,000
Reserves			
	Legal reserves	38231	
	Voluntary reserves	142521	
	Fair value reserve	0	
	Retained Earnings	42289	223041
Total Tier - 2 Capital			**6730**
General Provision as allowed			6730
Total eligible capital after deductions			**249771**

Capital Structure Disclosure - 31st December 2020 (Sheet 2)			
	(All Values in KD '000)		
Sr No	Asset Categories	Net Credit Risk Exposure (After CRM)	After CRM Risk Weighted Assets

Classification: PUBLIC

1	Cash Items	189	0
2	Claims on Sovereigns	78589	0
3	Claims on International Orgns	0	
4	Claims on PSE	0	
5	Claims on MDB	0	
6	Claims on Banks	193888	38793
7	Claims on Corporates	353275	353275
8	Claims on Securitized Assets	0	0
9	Credit Derivative Claims	0	0
10	Regulatory Retail	0	0
11	Past Due Exposures	30	30
12	Other Exposures	146277	146277
	Total Exposure	772248	538375
	Less General Provision		(31,509)
	Total Credit Risk Exposure		506,866
	Minimum Capital Requirements for Credit Risk		65,893
Capital Requirements for Market Risk			
	Total Market Risk Weighted Exposure		6,201
	Minimum Capital required		806
Capital Requirements for Operational Risk			
	Total Operational Risk Weighted Exposure		46,832
	Minimum Capital required		6,088
Total Risk Weighted Exposure			559,899
Total Min Capital requirement (Cr Risk + Mkt Risk + Op Risk)			72,787
Eligible Tier - 1 Capital			243,041
Eligible Tier - 2 Capital			6,730
Total Eligible Capital			249,771
Unused Capital			176,984
Capital Adequacy Ratio as per Basel - III			44.61%
Capital Adequacy Ratio based on Tier - 1 capital			43.41%
CET - 1 Capital Adequacy Ratio			43.41%

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

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

IBK Leverage Ratio December 31 2020 - Consolidated

S.No.	Item	Leverage ratio Framework (KD '000)
On-balance sheet exposures		
1.	On-balance sheet items	688,380
2.	(Amounts of assets deducted when calculating theT1 of the capital)	0
3.	**Total On-balance sheet exposures**	**688,380**
Derivative Exposures		
4.	Gross Exposure(including the amount of additional factor)	455
5.	(Adjustments)	450
6.	**Total derivative exposures**	**5**
Securities financing transaction exposures		
7.	SFT Assets	0
8.	**Total securities financing transaction exposures**	**0**
Off Balance sheet items		
9.	Commitments	140,287
10.	(Adjustments for conversion to credit equivalent amounts)	(112,230)
11.	**Total Commitments**	***28,057***
12.	Contingencies	73,527
13.	(Adjustments for conversion to credit equivalent amounts)	(38,910)
14.	**Total Contingencies**	***34,617***
15.	**Total Off Balance sheet items**	**62,679**
Capital & Total Exposures		
16.	**Tier 1 Capital**	**243,041**
17.	**Total Exposures**	**751,059**
Leverage Ratio		
18.	**Basel III Leverage Ratio**	**32.36%**

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 31.12.2020		
Past Due Category	Outstanding amount (KD '000)	% of Total Past Dues
0 ≤ 30	12227.82	35.14%
31 ≤ 90	21145.93	60.76%
91 ≤ 180	0.00	0.00%
181 ≤ 364	589.89	1.70%
1 year (365) ≤ 3 year	837.60	2.41%
Above 3 years	0.00	0.00%
Total	34801.24	100.00%

The ratio of Non-Performing Loans (NPL) to credit exposure stood at 0.32% as on 31.12.2020.

(iv) Loan Loss Provisions as per International Financial Reporting Standards (IFRS-9):
According to CBK guidelines credit loss provisions are calculated based on IFRS9-CBK criteria, as well as CBK's existing criteria as explained above. The higher of the two applies.

According to the IFRS9 method, the Bank is required to maintain provisions for performing credits in Stage 1 where credits are not impaired. However, there are three staging levels/criteria in the process. The placement in a stage classification depends on multiple factors, i.e. the credit rating, class probability of default, delinquency record and other information of significant rise in credit risk. The objective is to have a forward-looking statistical estimate of loan loss provisions. The Bank uses its internal credit rating system and classification system to model credit risk to and calculate the probabilities of default. This is then used in the model with the Loss Given Default rate (1 minus the recovery rate) and the Exposure at Default.

IFRS-9 Stage 1 is for performing and regular credits. Stage 2 is for credits where the risk levels have risen and as per CBK, the company is at least 30 days delinquent. Stage-3 is where there is significant rise in credit risk and as per CBK at least 90 days delinquent. Customer lists classified as per IFRS9 Staging criteria are submitted to the Bank's Provisions Committee and IFRS-9 data is reported to the Central Bank of Kuwait. As the Bank has maintained more provisions as per the traditional CBK method, and as the higher of the two methods applies, the Bank has continued to make provisions based on the CBK method as described above.

B. Sovereign Exposures:
The Bank has a minimal sovereign 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 31.12.2020 (All figures in KD'000)

Disclosure on Total Credit Risk Exposure (Funded & Non - Funded) Asset Category-wise Report: 31.12.2020			
Asset Category	**Funded Credit Risk Exposure**	**Non - Funded Risk Exposure**	**Total Credit Risk Exposure**
Cash Items	189	0	189
Claims on Sovereigns	78584	5	78589
Claims on International organizations			
Claims on PSEs			
Claims on MDBs			
Claims on Banks	193888	0	193888
Claims on Corporates	307808	48180	355988
Claims on Securitized Assets			
Credit Derivative claims			
Regulatory Retail			
Past Due Exposures	30	0	30
Other Assets	131783	14494	146277
Total Credit Risk Exposure	**712282**	**62679**	**774961**

Geographical Distribution of Exposures as on: 31st December 2020 (All figures in KD '000')

Geography	Total Loans and Advances				Loans & Advances: Industrial Loan				Loans & Advances: Commercial Facilities			
	Dec 2020		Dec 2019		Dec 2020		Dec 2019		Dec 2020		Dec 2019	
Kuwait	397824	100%	420,898	100%	150670	100%	159,789	100%	247154	100%	261,109	100%
Others	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Grand Total	397824	100%	420,898	100%	150670	100%	159,789	100%	247154	100%	261,109	100%

Residual Maturity of the Loans and Advances Portfolio as on 31st December 2020 (All figures in KD'000)

Category	Total Portfolio		Industrial Loan at encouraged rates		Loans & Advances at Commercial rate	
	Dec 2020	Dec 2019	Dec 2020	Dec 2019	Dec 2020	Dec 2019
Up to 1 Month	34114	54,342	29470	28,854	34166	25,487
1 to 3 Month	80680	91,461	4943	5,119	75738	86,342
3 to 12 Month	71063	69,028	22321	20,434	48742	48,596
Over 1 Year	133133	169,295	112447	144,343	20685	24,952
Balance at Year end	318990	384,126	169181	198,750	179331	185,377

Loans and Advances Portfolio by Sector as on 31st December 2020 (Outstanding Balances in KD’000)

Sector	Outstanding Balance (KD‘000)	As a % of Total Exposure	Outstanding Balance (KD‘000)	As a % of Total Exposure
	2019		2020	
Chemicals	20,475	4.86%	14959	3.76%
Food & Beverages	22,446	5.33%	21138	5.31%
Metal Products & Engineering	155,901	37.04%	156460	39.33%
Construction & Building Material	80,659	19.16%	83334	20.95%
Furniture	7,442	1.77%	5199	1.31%
Textile	557	0.13%	608	0.15%
Paper & Printing	10,204	2.42%	9705	2.44%
Government	0	0.00%	0	0.00%
Oil and Gas	119,599	28.42%	102723	25.82%
Agriculture and Fishing	0	0.00%	0	0.00%
Others (Non-Financial)	0	0.00%	0	0.00%
Total Non-Financial Sectors	**417,283**	**99.14%**	**394126**	**99.07%**
Financial Sectors	3,616	0.86%	3698	0.93%
Total Sectors	**420,899**	**100.00%**	**397824**	**100.00%**

Impaired Loans – Geographical Distribution as on 31st December 2020 (All figures in KD ‘000)

Geography	Outstanding loans		Provision provided for impaired loans	
	2020	2019	**2020**	2019
Kuwait	1,024	1,164	1024	586
Other GCC countries	0	0	0	0
Grand total	1,024	1,164	1024	586
Impaired loans as a percentage of outstanding loans portfolio	**0.32%**	**0.35%**		
Coverage percentage			**100.00%**	**50.37%**

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 cyclicality.

Credit Exposure after risk mitigation and credit conversion factor as on 31st December 2020

Credit Exposure after Credit Risk Mitigation (CRM) and credit conversion factor: 31.12.2020 (All figures in KD '000)			
Asset Categories	**Credit Exposure before CRM**	**Credit Exposure after CRM**	**Credit Risk Weighted Assets**
Cash Items	189	189	0
Claims on Sovereigns	78589	78589	0
Claims on International organizations	0	0	0
Claims on PSEs	0	0	0
Claims on MDBs	0	0	0
Claims on Banks	193888	193888	38793
Claims on Corporates	355988	353275	353275
Claims on Securitized Assets	0	0	
Credit Derivative claims	0	0	
Regulatory Retail	0	0	0
Past Due Exposures	30	30	30
Other Assets	146277	146277	146277
Total Credit Risk Exposure	**774961**	**772248**	**538375**

IFRS9 - EXPECTED CREDIT LOSSES - STAGEWISE - AS ON 31.12.2020		
Stages	**Exposure (in KD '000)**	**Expected Credit Loss (ECL) (in '000 KD)**
Stage - 1	398411	2383
Stage - 2	112387	4320
Stage - 3	33447	16547
TOTAL ==>	**544245**	**23250**

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 31.12.2020 (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	6201	806
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 2020 (All figures in KD '000)	
Description	**Total Weighted Value**
Notional Exposure of Foreign Exchange Forward Contracts	455
Positive MTM	0

Interest rate risk in the banking book

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

Interest Rate Sensitivity – 31st December 2020 (Currency: KD) (All figures in KD '000)			
	Up to 1 Year	1 - 5 Years	Over 5 Years

Interest Earning Assets	275,424.06	118,802.57	14,894.72
Interest Bearing Liabilities	3,924.44	0	239,678.59
GAP	271,499.62	118,802.57	224,783.87-
Cumulative GAP	271,499.62	390,302.19	165,518.32
Sensitivity to 1% interest rate change in the next 1 year			1655.18
Interest Rate Sensitivity – 31st December 2020 (Foreign Currency: USD) (All figures in KD '000)			
	Up to 1 Year	1 - 5 Years	Over 5 Years
Interest Earning Assets	9,621.10	0.00	0.00
Interest Bearing Liabilities	91,625.06	0	0.00
GAP	82,003.96-	0.00	0.00
Cumulative GAP	82,003.96-	82,003.96-	82,003.96-
Sensitivity to 1% interest rate change (in KD terms, after conversion)			820.04-
Overall Interest Rate Sensitivity (Combine Position) for 1% Interest Rate Change			**835.14**

Liquidity Risk Management:

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

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

The Board has established an appropriate liquidity policy for the management of the Bank's funding and liquidity management requirements. The Bank's Asset and Liability Committee ("ALCO") oversees the implementation of the liquidity policy and risk management plays an active role with the CRO being a part of the Committee and the risk management department performing a risk-monitoring role. The Bank's senior management manages liquidity risk effectively in the context of the Bank's business plan and long term funding strategy, taking into account prevailing economic and financial conditions and currency needs. To this end, the Board has set limit and tolerance levels for its liquidity risk appetite which is monitored by risk management and reported regularly to the Board Risk Committee.

The Bank through its Treasury Department manages liquidity risk on a continuous basis within established liquidity risk management policies and limits. This involves monitoring and managing several liquidity metrics, a portfolio of high quality liquid assets, reserves, and the continuous monitoring of forecast and actual cash flows together with institutional relationships as funding sources. In addition, the Bank uses liquidity ratios (LCR, NSFR) and liquidity scenarios, regular and stressed together with volatility tracking, as key metrics to establish its liquidity risk tolerance levels, which are built into the risk appetite statement. These metrics measure the Bank's ability to fulfill all its payment obligations stemming from ongoing business operations under various scenarios.

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

The Risk Management function periodically reviews liquidity risk policies and procedures and the adequacy of these policies and the overall liquidity management process. It also monitors and reports adherence to the various liquidity ratios and limits, both internal and regulatory on a regular basis. It also monitors asset liability gaps and adherence to limits. A strong plus in the term structure of funding is the long-term loan from the government available on a roll over basis that funds the long-term developmental finance provided by the bank, which obviates the need to use short term liabilities to fund long term assets, thus covering risks. The Bank maintains excess liquidity in the form of cash and unencumbered high-quality liquid securities that together serve as the Bank's primary means of liquidity risk mitigation.

Stress Testing

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

Other Qualitative Information

The Liquidity Coverage Ratio (LCR) is a Basel III metric that measures the sufficiency of High Quality Liquid Assets (HQLA) available to meet net short-term financial obligations over a thirty day period in an acute stress scenario. HQLAs are assets which can be easily and immediately converted into cash at little or no loss of value.

In December 2014, CBK released the final guideline on "Liquidity Coverage Ratio Disclosure Standards", requiring banks to disclose the LCR ratio beginning in Q1, 2016. LCR is disclosed using CBK's template and is calculated using the average of daily positions during the quarter.

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

The Net stable funding ratio (NSFR) is designed to promote medium- and long-term stable funding of the assets and off-balance-sheet activities over a one-year time horizon. Effective Mar'20, Central Bank of Kuwait ("CBK") has reduced minimum LCR and NSFR levels from 100% to 80% for both the ratios.

As at 31 December 2020, the Industrial Bank of Kuwait's short term Liquidity Coverage Ratio (LCR) and the longer term Net Stable Funding Ratio (NSFR) stood at well above 100%, at 325.94% and 143.91% respectively. Thus, the Bank is in a good position to manage any short-term funding stress should they arise.

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

Disclosure on Liquidity Coverage Ratio (LCR): Based on the CBK guidelines on Liquidity Coverage Ratio, the LCR disclosure for the period ended 31.12.2020 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)		77567
CASH OUTFLOWS	2	RETAIL DEPOSITS AND SMES:	20459	4389
	3	> STABLE DEPOSITS	0	0
	4	> LESS STABLE DEPOSITS	14,593	3143
	5	OTHER UNSECURED DEPOSITS AND FUNDS FROM WHOLESALE FUNDING EXCLUDING DEPOSITS OF SMES CUSTOMERS:	70,918	52794
	6	> OPERATIONAL DEPOSITS	0	0
	7	> NON-OPERATIONAL (OTHER UNSECURED FUNDING)	70,918	52794
	8	SECURED FUNDING		
	9	OTHER CASH OUTFLOWS, INCLUDING:	118,759	33545
	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	118,759	33545
	13	OTHER PROSPECTIVE FUTURE FUNDING OBLIGATIONS	77,685	3884
	14	OTHER CASH CONTRACTUAL OUTFLOWS	1	1
	15	TOTAL CASH OUTFLOWS		94615
CASH INFLOWS	16	SECURED LENDING TRANSACTIONS	0	0
	17	CASH INFLOWS FROM PERFORMING LOANS	443,516	221758
	18	OTHER CASH INFLOWS	513	513
	19	TOTAL CASH INFLOW	444,029	222271
LIQUIDITY COVERAGE RATIO	20	TOTAL HIGH QUALITY LIQUID ASSETS (AFTER REVISIONS)		77567
	21	NET CASH OUTFLOWS		23654
	22	LIQUIDITY COVERAGE RATIO		328.55%

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: 31.12.2020(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	249771				249771
3	* Other Capital Instruments	-	-	-	-	-
4	Retail Depsoits and Deposits from small business customers :					
5	* Stable Deposits	-	-	-	-	-
6	* Less Stable Deposits	12586.365	1155.768	50.00	0.000	1085.19
7	Wholesale funding:					
8	* Operational Deposits	-	-	-	-	-
9	* Other wholesale funding	7058.932	40422.808	32120.240	331938.500	353827.37
10	Other Liabilities:					
11	* NSFR Derivative Liabilities	-	-	-	-	-
12	* All other liabilities not included in the above categories	67562.23	7594.14	-	-	-
13	**Total ASF**	**336978.53**	**49172.72**	**32170.24**	**331938.50**	**604683.56**
Required Stable Funding (RSF):						
14	Total NSFR high - quality liquid assets (HQLA)	78,487.62	-	-	-	3787.50
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	9922.311	161000.000	-	-	16100
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:	53.646	103121.699	47048.152	171451.311	246586.24
20	** With a risk weight of less than or equal to 35% as per Capital Adequacy Ratio - Basel 3 Guidelines	-	-	-	-	-
21	* Performing residential mortgages, of which:	-	-	-	-	-
22	** With a risk weight of less than or equal to 35% under CBK Capital	-	-	-	-	-

	Adequacy Ratio - Basel III Guidelines					
23	* Securities that are not in default and do not quality as HQLA, including exchange - traded equities	-	-	-	-	-
24	Other Assets:					
25	* Physical traded commodities, including gold	-	-	-	-	-
26	* Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
27	* NSFR derivative assets	-	-	-	-	-
28	* NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
29	* All other assets not included in the above categories	564.08	6840.73	-	163480.80	167465.20
30	Off - Balance Sheet Items	-	73437.91	-	-	3671.90
31	Total RSF	89027.66	344500.34	47048.15	334932.12	437610.84
32	**NSFR (%)**					**138.18%**

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 monitory 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 FY2020 is: KD 6.088 Millions.

Industrial Bank of Kuwait	
Disclosure on Operational Risk (Using Standardized Approach) as on 31st December 2020	
Description	**Value(KD '000)**
Total Operational Risk Weighted Assets	46,832
Total Capital Charge	6,088
Methodology: Based on the average of last 3 years gross income, the approach as suggested by Central Bank of Kuwait / Basel - III	

Anti-Money Laundering Policies:

The Bank is subject to the rules and regulations of its regulator, the CBK, in the conduct of banking business. The Bank is bound by CBK Instruction No. (2/RB/RBA/432/2019) and Law No. 106 of 2013 and subsequent amendments which have been designed to combat money laundering.

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

The Bank is required to obtain from its customers, copies of the 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 2020 (in KD)

Category 1: 3 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
432040	20307	11055

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
	279162	

Category 2: 5 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
258817	19803	18975

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
	82297	

Category 3: 5 employees

Fixed

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
249346	12872	3795

Variable

Unrestricted Cash-based	Deferred Cash-based	Unrestricted Other
	63656	