FitchRatings

Banks
Wholesale Commercial Banks
Kuwait

The Industrial Bank of Kuwait K.S.C.

Key Rating Drivers

Support Drives Ratings: Industrial Bank of Kuwait's (IBK) Issuer Default Ratings (IDRs) reflect an extremely high probability of support from the Kuwaiti authorities, if needed. The Viability Rating (VR) reflects high concentration and market risks, as well as IBK's high sensitivity to the operating environment. The VR also considers IBK's unique company profile in Kuwait, strong funding, high capital ratios, offset by weakening profitability, volatile asset quality, and domestic operating environment pressure due to the coronavirus pandemic and lower oil prices.

Unique Company Profile: IBK's company profile differs from that of commercial banks as IBK is Kuwait's sole development bank. The bank's primary focus is the provision of concessionary medium and long-term financing for the establishment, expansion and modernisation of private sector industries. The bank also provides commercial banking, mainly in the form of working capital, and its risk profile differs from that of commercial banks.

Strong Funding Profile: IBK's non-equity funding is almost exclusively in the form of a KWD300 million 20-year subordinated loan from the Kuwaiti government maturing in 2027 and expected to be renewed upon maturity. IBK is restricted from taking retail deposits but can take corporate deposits. However, these account for a low proportion of the bank's total funding.

Volatile Asset Quality: IBK's impaired loans/gross loans ratio increased to 3.5% at end-1H20 from 0.2% at end-2019. However, our base case is that write-offs will increase for the full year and will bring the impaired loans ratio to a more normalised level for IBK. High loan concentration is a major constraint on asset quality but net loans account for a low proportion of total assets (end-1H20: 46%), and non-loan assets (including financial investments) support asset quality metrics.

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

Weakening Profitability: Profitability is not the main goal for IBK due to its development mandate. However, higher loan impairment charges in 2019 and fair-value losses on investments in 1H20 have undermined profitability, with an operating profit/risk-weighted assets (RWAs) ratio of minus 1.89% in 1H20 (1.53% in 2019 and 1.97% in 2018). We expect the bank to generate a lower profit in 2020 due to likely lower operating income and increased loan impairment charges.

High Capital Ratios: IBK has high capital ratios by international standards, with a common equity Tier 1 ratio consistently above 40% in recent years (40.5% at end-1H20). Nevertheless, we see these high ratios as a necessity for the bank's concentration risks.

Rating Sensitivities

IDR Sensitivities: IBK's IDRs are sensitive to a change in Fitch's assumptions about the Kuwaiti authorities' propensity or ability to provide support to Kuwaiti banks or IBK. However, we do not believe these is much likelihood of any change.

VR Sensitivities: An upgrade is unlikely in the near term, although stabilisation in the bank's earnings and asset quality would be positive for the VR. A significant weakening of the bank's capital metrics and/or asset quality on a sustained basis could lead to a downgrade.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	bb+
Support Rating	1
Support Rating Floor	A+
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA
Country Ceiling	AA+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Kuwaiti Banks' Asset Quality and Profitability Under Pressure (November 2020)
Fitch Affirms Industrial Bank of Kuwait at 'A+'; Outlook Stable (September 2020)
GCC Banks to Weaken Despite Hundreds of Billions of Dollars of Stimulus (April 2020)
Kuwaiti Banks More Resilient Than Most GCC Peers in Current Crisis (March 2020)

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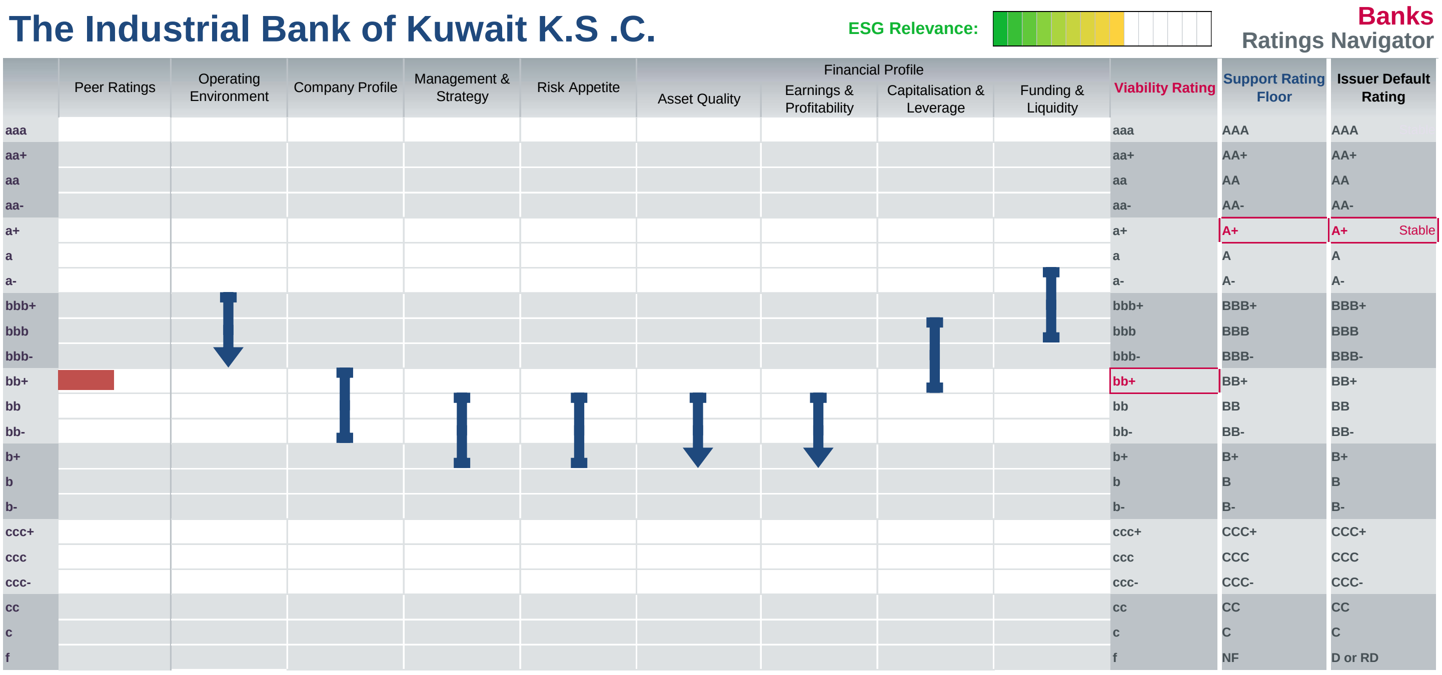
Ratings Navigator



Sovereign Support Assessment

IBK's Support Rating of '1' and Support Rating Floor (SRF) of 'A+' reflect Fitch's view of an extremely high probability of support for the bank, if needed, from the Kuwaiti authorities.

Fitch's expectation of support from the authorities is underpinned by Kuwait's strong ability to provide support to domestic banks, as reflected by the sovereign rating (AA/Stable) and a strong willingness to do so irrespective of the banks' size, franchise, funding structure and level of government ownership. This view is reinforced by the authorities' record of support for the domestic banking system if needed.

The Central Bank of Kuwait (CBK) operates a strict regime with active monitoring to ensure the viability of banks and has acted swiftly in the past to provide support when needed. This view also considers the high contagion risk given the small number of banks and high concentration of banks in the system, as well as the importance of maintaining the soundness and reputation of the banking system. As a result, the SRFs of all rated banks are the same as the domestic systemically important bank SRF of 'A+', with the exception of the flagship bank, National Bank of Kuwait (NBK) at 'AA-', and IBK is no exception.

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A or A-
Actual country D-SIB SRF			A+
Support Rating Floor:			**A+**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem		✓	
Structure of banking system			✓
Liability structure of banking system	✓		
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support	✓		
Government statements of support	✓		
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank	✓		
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role		✓	
Funding guarantees and legal status			✓
Government ownership		✓	

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧	Positive	⇩	Negative
⇳	Evolving	▫	Stable

Significant Changes

Stable Sovereign Rating Despite Pressure

An exceptionally strong external balance sheet and the vast assets of the Kuwait Investment Authority (estimated at USD529 billion or 380% of GDP at end-1Q20) underpin the sovereign's rating (AA/Stable). The government debt/GDP ratio is low (15% in 2019). Nevertheless, Kuwait has been using its accumulated surpluses under the General Reserve Fund for deficit financing and the repayment of maturities. The expected government deficit (about 23.5% and 16.4% of GDP for FY20 and FY21, respectively) from low oil prices and the pandemic will put pressure on public spending. Debt issuance (if the parliament passes the debt law) or asset drawdowns (access to the Reserve Fund for Future Generations) for public spending will pressure the sovereign's rating.

The economy is heavily dependent on oil (about 90% of exports and 70% of budget revenue in 2019). The economic policy framework is a weakness relative to peers and Kuwait's institutions have been slow to tackle the country's structural challenges. Kuwait's private sector remains heavily dependent on public spending, government projects, subsidies and public sector employment. Other weaknesses include weak measures of governance, competitiveness and ease of doing business, in addition to some geopolitical risks.

Growth Remains Subdued

Real GDP growth remained subdued in 2019 at 0.4% (2018: 1.3%) due to oil production cuts (under an OPEC agreement) and delays to refinery upgrades. Fitch expects a real GDP contraction of 7.9% in 2020 owing to the pandemic and low oil prices. Kuwait's fiscal and external metrics will remain sensitive to oil prices and production. Continuous government spending on wages and investments, supported by higher oil price, should help business confidence recover from the current crisis. However, the increasing public deficit could restrain the government's capacity to support high growth. Fitch expects bank credit growth to be in the low-to-mid single digits in 2020 and 1H21. This includes the impact of six-month deferral of consumer finance payments and expected corporate loans restructuring due to the pandemic.

Banks' Credit Profiles Remain Resilient

Kuwaiti banks are more resilient than most GCC peers in the current crisis. The CBK has acted swiftly to weather the negative impact of the current crisis by cutting interest rates and relaxing capital and liquidity ratios, among other measures.

Fitch expects the banks' asset quality to deteriorate and more restructuring and write-offs to occur. Kuwaiti banks are highly exposed to real estate (23% of loans at end-3Q20), construction (5%) and consumer lending (43%, including 31% instalment loans), which are under pressure in the current crisis. Interest-rate cuts will hit net interest margins and put pressure on profitability, along with lower business volumes and higher impairment charges. Capital buffers and ratios are expected to remain adequate, supported by high loan loss allowances and subdued growth. Liquidity remains strong as it did during times of lower oil prices, supported by large and stable deposits from government-related entities (about 30% of customer deposits). Banks remain exposed to event risk due to high single-obligor and sector concentrations, which is hardly avoidable given the narrow nature of the domestic economy.

The Kuwaiti banking system is highly concentrated and interconnected. The two largest banks, NBK (excluding Boubyan Bank) and Kuwait Finance House, together held 44% of total domestic assets at end-1H20. Banks are largely domestically owned. The Kuwaiti sovereign often owns minority stakes through its related entities. The private sector, especially well-known Kuwaiti merchant families and local financial institutions, owns large stakes. Foreign banks represent a small part of the banking system due to high barriers to entry. There is segregation between conventional and Islamic banking activities, with Islamic windows not allowed. Kuwait's financial markets are developing but lack size and liquidity.

Sound Regulatory Framework

The CBK is a prudent and conservative regulator, with good oversight, sound supervision and active monitoring ensuring compliance with prudential limits. These include Basel III capital, leverage and liquidity requirements, as well as financing caps (single obligor; share financing; real estate; related parties; retail) and best practice corporate governance requirements.

Company Summary and Key Qualitative Assessment Factors

Kuwait's Sole Development Bank

IBK was established in 1973 on the initiative of the government of Kuwait to promote domestic industrial development. It plays a key role in financing Kuwait's industrial sector. The state is IBK's largest shareholder, with a direct and indirect ownership of about 70%.

IBK offers financing to Kuwaiti industrial enterprises through either medium and long-term industrial loans (46% of gross loans at end-1H20) at a preferential 3.5% fixed rate (usually five- to seven-year maturity) or commercial loans (54% of gross loans at end-1H20) that are priced closer to market rates (largely short-term working capital to industries).

IBK's non-lending activities include investments and treasury, aiming at deploying surplus liquidity and diversifying revenue, mainly due to growth constraints in the bank's core business. In addition to investments in CBK and domestic government bonds (12% of total assets at end-1H20), IBK also has other investments, primarily in well-known international private equity funds, but also in domestic and foreign corporate bonds and stakes in local industrial companies.

Policy Mandate Constrains Strategy

As a development bank, IBK's strategic objectives are narrow and mostly dictated by the policy role and public mandate of the bank. This has been reflected in previous periods by low and volatile credit demand in the industrial sector, which translated into difficulties expanding and stabilising the lending base. Growth of gross loans has been volatile since 2014 and negative at about 4% in 2018 and 2019). This has also pushed IBK to explore new opportunities to broaden lending sectors beyond industrial loans, which remains subject to approval from the Kuwaiti government and parliament.

Business Model Constrains Execution

Execution of IBK's objectives is constrained by limited lending opportunities in the industrial sector and the low interest-rate environment. Low interest rates mean that commercial banks' rates would be broadly in line with IBK's concessionary industrial loan rates and the latter would, therefore, become uncompetitive. However, IBK's lending has not particularly benefitted from rising interest rates in the past, with very stable 2.7%-2.8% net interest margins (NIMs) in the last four years (including a 2.6% annualised NIM in 1H20).

Concentration Risks

IBK's underwriting standards are pre-set by its mandate. The bank only lends to domestic industrial companies. The bank's loan book is split almost evenly between industrial loans and commercial loans, with no retail lending. IBK uses the relationships developed by its industrial loans to garner new commercial customers (about 80% of its commercial customers are also industrial clients). However, the undiversified nature of business and lending leads to unavoidable high sector and single-borrower concentrations and exposes IBK more to event risk than domestic commercial banks.

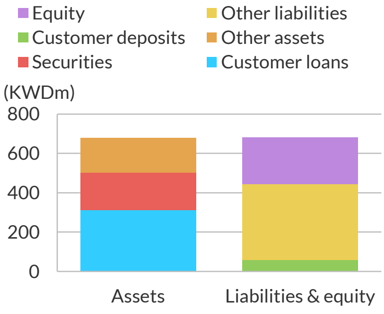
Large Securities Portfolio

Most of IBK's fixed-income investments relate to Kuwaiti government or CBK bonds. These are held for capital and liquidity purposes. IBK also holds additional investments at fair value through profit and loss that are diversified by geography and by asset class. Excess liquidity is managed conservatively by investing in sovereign debt and lending to the interbank market.

IBK has the largest securities portfolio relative to assets in the sector and this exposes the bank to market risk.

IBK's interest-rate risk is low with the bank almost exclusively funded by a KWD300 million (44% of total assets at end-1H20) 20-year loan from the Kuwaiti government. IBK pays a fixed annual interest rate of 0.5% on the amounts of industrial loan exposures (either disbursed amounts or undrawn commitments) and these loans are granted by the bank at preferential fixed lending rates. Margins on industrial loans are therefore not correlated with market rates. IBK pays three months' KIBOR-floating rate on the balance of the KWD300 million loan unused for industrial loans; these funds are deployed in floating-rate commercial loans.

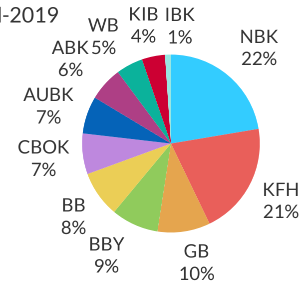
Balance Sheet End-June 2020



Source: Fitch Ratings, IBK

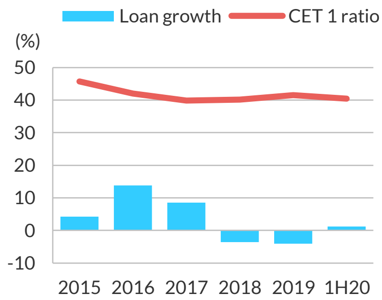
Market Shares by Total Local Assets

End-2019



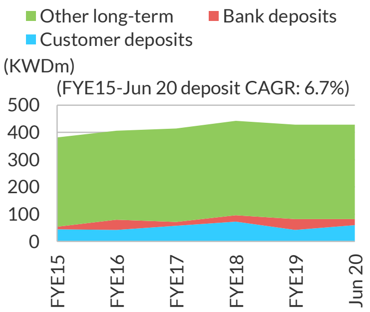
Source: Fitch Ratings, Banks

Loan Growth



Source: Fitch Ratings, IBK

Funding Breakdown



Source: Fitch Ratings, IBK

Summary Financials and Key Ratios

	30 Jun 20		31 Dec 19	31 Dec 18	31 Dec 17
	6 months - interim (USDm) Reviewed - unqualified	6 months - interim (KWDm) Reviewed - unqualified	Year end (KWDm) Audited - report not seen	Year end (KWDm) Audited - unqualified	Year end (KWDm) Audited - unqualified
Summary income statement					
Net interest and dividend income	27	8.3	18.3	17.9	18.1
Net fees and commissions	6	1.9	3.8	3.9	4.6
Other operating income	-28	-8.5	14.8	14.0	10.7
Total operating income	6	1.7	36.9	35.8	33.4
Operating costs	15	4.5	11.5	10.7	13.6
Pre-impairment operating profit	-9	-2.8	25.4	25.1	19.8
Loan and other impairment charges	8	2.6	16.7	13.8	7.0
Operating profit	-18	-5.4	8.7	11.3	12.8
Other non-operating items (net)	n.a.	n.a.	0.2	n.a.	n.a.
Tax	n.a.	n.a.	0.1	0.2	0.3
Net income	-18	-5.4	8.8	11.1	12.5
Other comprehensive income	n.a.	n.a.	n.a.	n.a.	-6.1
Fitch comprehensive income	-18	-5.4	8.8	11.1	6.4
Summary balance sheet					
Assets					
Gross loans	1,104	339.8	335.9	350.1	363.2
- Of which impaired	38	11.8	0.6	0.2	0.2
Loan loss allowances	95	29.3	26.0	17.5	17.8
Net loans	1,009	310.5	309.9	332.6	345.4
Interbank	445	137.0	125.0	82.6	85.4
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	647	199.3	220.3	263.4	223.1
Total earning assets	2,101	646.8	655.2	678.6	653.9
Cash and due from banks	60	18.6	18.2	5.9	2.0
Other assets	48	14.8	11.7	14.9	15.4
Total assets	2,210	680.2	685.1	699.4	671.3
Liabilities					
Customer deposits	195	60.1	41.9	72.3	57.3
Interbank and other short-term funding	71	21.8	40.6	24.3	14.5
Other long-term funding	1,125	346.4	345.6	345.9	342.8
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	1,391	428.3	428.1	442.5	414.6
Other liabilities	47	14.6	14.3	20.4	22.1
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	771	237.3	242.7	236.5	234.6
Total liabilities and equity	2,210	680.2	685.1	699.4	671.3
Exchange rate		USD1 = KWD0.3078	USD1 = KWD0.30305	USD1 = KWD0.30355	USD1 = KWD0.30175

Source: Fitch Ratings, Fitch Solutions, IBK

Summary Financials and Key Ratios

	30 Jun 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-1.9	1.5	2.0	2.3
Net interest income/average earning assets	2.6	2.8	2.7	2.7
Non-interest expense/gross revenue	214.3	31.2	30.1	41.1
Net income/average equity	-4.5	3.6	4.7	5.3
Asset quality				
Impaired loans ratio	3.5	0.2	0.1	0.1
Growth in gross loans	1.2	-4.1	-3.6	8.5
Loan loss allowances/impaired loans	248.3	4,333.3	8,750.0	8,900.0
Loan impairment charges/average gross loans	1.7	4.7	3.9	1.8
Capitalisation				
Common equity Tier 1 ratio	40.5	41.5	40.2	39.8
Tangible common equity/tangible assets	34.9	35.4	33.8	35.0
Basel leverage ratio	31.2	31.6	29.8	30.4
Net impaired loans/common equity Tier 1	-7.5	-10.7	-7.5	-7.8
Funding and liquidity				
Loans/customer deposits	565.4	801.7	484.2	633.9
Liquidity coverage ratio	426.2	444.0	822.3	668.0
Customer deposits/funding	14.0	9.8	16.3	13.8
Net stable funding ratio	156.3	152.1	149.5	150.3

Source: Fitch Ratings, Fitch Solutions, IBK

Key Financial Metrics – Latest Developments

Deterioration in Asset Quality

IBK's impaired loans/gross loans ratio increased sharply to 3.5% at end-1H20 from 0.2% at end-2019. Our base case is that write-offs will increase for the full year and will bring the impaired loans ratio to a more normalised level for IBK. We view IBK's asset quality as sensitive to economic cycles, as evidenced by the sudden increase in impaired loans. Even excluding the potential effects of the coronavirus pandemic that will likely drive increased loan impairments, the bank is still particularly affected by the volatility and uncertainty of oil prices, with high loan concentrations creating risks of a quick build-up of problem assets.

In addition, IBK's past due for 61-90 days but not impaired loans increased to KWD6.3 million (1.9% of gross loans) at end-1H20 from KWD0.9 million (0.3%) at end-2019. In the current operating environment these loans could become impaired. In 1H20 IBK did not book any write-offs and restructured loans were stable. IBK's loan loss allowances (248% loan loss allowance/impaired loans ratio and 8.6% loan loss allowance/gross loans coverage at end-1H20) were adequate given the bank's exposure to event risk. Non-loan assets, including financial investments, support asset-quality metrics; 43% of securities were highly-rated Kuwaiti government bonds at end-1H20.

Weakening and Volatile Earnings & Profitability

The operating profit/risk-weighted assets ratio was 1.53% in 2019 and minus 1.89% (annualised) in 1H20, down from 1.97% in 2018 due to higher loan impairment charges (2019) and fair-value losses on investments through the P&L (1H20). We expect the bank to generate a lower profit in 2020 due to likely lower operating income and increased loan impairment charges.

IBK's revenues are mainly in the form of net interest income (50% of total operating income in 2019), while the contribution from net fees and commissions is modest (only 10% in 2019). Net gains from investments remained high in 2019, at 35% of total operating income. This can generate volatility in the bank's results as seen in 1H20.

High Capital Ratios but High Concentration Risks

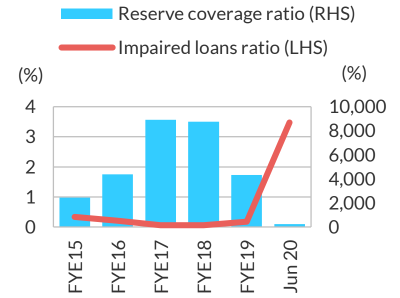
IBK has high capital ratios by international standards. While its total capital adequacy ratio (CAR) stopped benefiting from its KWD300 million subordinated loan from the state in 2014 with the implementation of Basel III in Kuwait, IBK's CAR remains among the highest in the region. Fitch's headline capital metric, the CET1 ratio, has been consistently above 40% in recent years (40.5% at end-1H20) and IBK's Basel leverage ratio of 31% is far above the 3% requirement for Kuwaiti banks. Nevertheless, we see these high ratios as a necessity given the bank's concentration risks and sensitivity to economic cycles. In addition, these ratios have been kept at high levels due partly to subdued new business in recent years and may decline if financing growth accelerates, which is not our base case.

Strong Funding Profile

IBK's funding profile is a rating strength. Non-equity funding mainly comes from a 20-year KWD300 million loan from the Kuwaiti government, which matures in 2027, equivalent to 68% of non-equity funding at end-1H20. IBK considers this funding to be virtually perpetual and extensions to the loan are very likely due to the bank's state ownership and development role. The loan provides low-cost funding for the bank's subsidised lending activities.

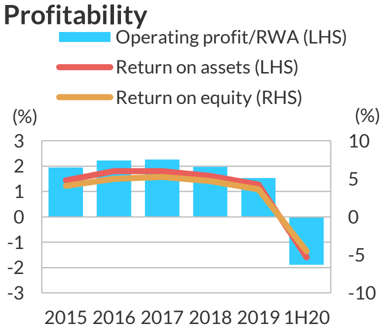
The bank's licence restricts IBK from undertaking any form of retail activity, including collecting retail deposits. IBK has some corporate deposits in the form of current accounts but these accounted for a low 14% of non-equity funding at end-1H20. IBK expects deposits to increase as the commercial banking business develops. However, the government loan will remain the main source of its funding. Balance sheet liquidity is strong, with cash, short-term interbank placements, and Kuwaiti government treasury bills and bonds covering 54% of non-equity funding at end-1H20 (168% excluding the government loan). Most of IBK's liquid assets are in Kuwaiti dinars. IBK benefits from a very comfortable liquidity coverage ratio (426% end-1H20) due to its very low net cash outflow.

Asset Quality



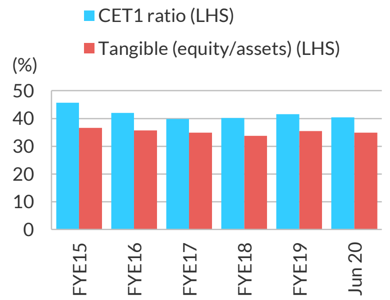
Source: Fitch Ratings, IBK

Profitability



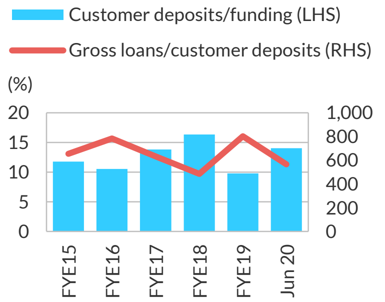
Source: Fitch Ratings, IBK

Capitalisation & Leverage



Source: Fitch Ratings, IBK

Funding Profile



Source: Fitch Ratings, IBK

Environmental, Social and Governance Considerations

FitchRatings **The Industrial Bank of Kuwait K.S .C.** Banks Ratings Navigator

Credit-Relevant ESG Derivation

The Industrial Bank of Kuwait K.S .C. has 5 ESG potential rating drivers

- The Industrial Bank of Kuwait K.S .C. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on IBK, either due to their nature or to the way in which they are being managed by IBK. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.