



RATING ACTION COMMENTARY

Fitch Affirms Industrial Bank of Kuwait at 'A+'; Outlook Negative

Thu 29 Apr, 2021 - 12:05 PM ET

Fitch Ratings - London - 29 Apr 2021: Fitch Ratings has affirmed Industrial Bank of Kuwait's (IBK) Long-Term Issuer Default Rating (IDR) at 'A+' with a Negative Outlook. Fitch has also withdrawn the bank's Viability Rating (VR) of 'bb+'.

Fitch has withdrawn the VR of IBK as a result of reassessment of the importance of its policy role for its operations. In line with Fitch's Bank Rating Criteria, policy banks are usually not assigned VRs due to their more limited commercial operations. As IBK's lending activity and funding profile are largely determined by the bank's policy role, we have withdrawn the VR.

KEY RATING DRIVERS

IDRS, SUPPORT RATING AND SUPPORT RATING FLOOR

IBK's IDRs are driven by support from the Kuwaiti state. The Support Rating (SR) of '1' and Support Rating Floor (SRF) of 'A+' reflect Fitch's view of an extremely high probability of

support being provided by the Kuwaiti authorities to all domestic banks. The SRF is in line with Fitch's Domestic Systemically Important Bank SRF for Kuwait.

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/Negative) and a strong willingness to do so irrespective of the bank's size, franchise, funding structure and level of government ownership. This view is reinforced by the authorities' record of support for the domestic banking system.

The Central Bank of Kuwait operates a strict regime with active monitoring, and has acted swiftly to provide support when needed. Contagion risk among domestic banks is high (Kuwait is a small and an inter-connected market) and we believe this incentivises the state to provide support to all Kuwaiti banks.

The Negative Outlook on IBK's Long-Term IDR reflects that on the Kuwaiti sovereign rating.

IBK's Short-Term IDR of 'F1' - the lower of two options corresponding to an 'A+' IDR as per our rating criteria - reflects "wrong-way" risk. A significant proportion of Kuwaiti banks' funding is related to the government and they would likely need support at a time when the sovereign itself is experiencing some form of stress.

IBK is Kuwait's sole development bank and 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 services, mainly working-capital facilities, which are evenly split between industrial loans and commercial loans. IBK's strategic objectives are mostly dictated by the policy role and public mandate of the bank.

IBK is heavily funded by the state. A KWD300 million subordinated loan from the Kuwaiti government maturing in 2027 comprised 68% of non-equity funding at end-2020. IBK views this funding as virtually perpetual and we believe that extensions to the loan are likely due to the bank's state ownership and longstanding development role.

Profitability is not the main goal for IBK due to its development mandate. The bank is better-positioned than its peers due to its fixed-rate industrial loans, which unlike commercial loans, are not affected by rate changes. However, high loan impairment charges continued to suppress profitability in 2020 while fair-value gains on investments through

the P&L have supported the bank's profitability (operating profits / risk weighted assets was 1.8% in 2020 and 1.5% in 2019 compared with 2% in 2018).

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-An upgrade of IBK's Long-Term IDR could come from an upward revision of the SRF. However, this is unlikely in the near term given the already high level of the SRF and the Negative Outlook.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of IBK's Long-Term IDR would require a downward revision of the bank's SRF. The latter would likely stem from a weaker ability to support, reflected in a Kuwaiti sovereign downgrade. A weaker propensity from the Kuwaiti authorities to support IBK would also lead to a negative rating action, but this is unlikely in Fitch's view, given the strong record of supporting domestic banks.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The Long-Term IDR of IBK is linked to the Kuwaiti sovereign IDR.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
The Industrial Bank of Kuwait K.S.C.	LT IDR	A+ Rating Outlook Negative	Affirmed	A+ Rating Outlook Negative
	ST IDR	F1	Affirmed	F1
	Viability	WD	Withdrawn	bb+
	Support	1	Affirmed	1
	Support Floor	A+	Affirmed	A+

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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The Industrial Bank of Kuwait K.S.C.

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