

REF : ABK/BA/59  
Date : 27 March 2023

To: Boursa Kuwait

Dear Sirs,

**Subject: Credit Rating Disclosure**

Reference is made to the above-mentioned subject, and in compliance with chapter four (Disclosure of Material Information) of Rule Book (Disclosure and Transparency) of CMA executive bylaws of Law No. 7 of 2010 regarding the establishment of the Capital Markets Authority and Regulating Securities Activity and its amendments.

Please be informed that Fitch Ratings Agency has issued its report for Al Ahli Bank Of Kuwait on 23 March 2023.

Attached is the Appendix (8) 'Disclosure of credit rating form Al Ahli Bank K.S.C.P.

Best Regards.

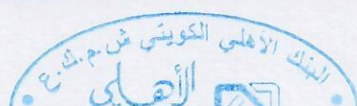


**Fawzy Al-Thunayan**  
GM, Board Affairs



**Appendix 8  
Disclosure of Credit Rating Form**

|   |  |
|---|--|
| Date  | 27 March 2023  |
| Name of Listed Company                                | Al Ahli Bank of Kuwait (K.S.C.P)   |
| Entity who issues the rating                          | Fitch Ratings Agency   |
| Rating category                                       | <p><b>Foreign Currency:</b><br/>           Long-Term IDR: A<br/>           Short-Term IDR: F1<br/>           Viability Rating: bb<br/>           Government Support Rating: a<br/>           Outlook: Stable</p>   |
| Rating Implications                                   | <p>ABK's IDRs reflect potential support from the Kuwaiti authorities, as reflected in its Government Support Rating (GSR) of 'a'. The Stable Outlook on ABK's Long-Term IDR mirrors that on the Kuwaiti sovereign rating (AA-/Stable).</p> <p>The 'F1' Short-Term IDR is the lower of two options mapping to a 'A' Long-Term IDR because a significant part of Kuwaiti banks' funding is related to the government and a stress scenario for ABK would likely come when the sovereign itself is experiencing some form of stress.</p> <p>The VR reflects ABK's high loan concentrations and exposure to the volatile Egyptian market. The VR also considers ABK's moderate franchise, healthy asset quality, improving profitability, stable funding, good liquidity metrics and adequate capital ratios.</p>  |
| Rating effect pm the status pf the company            | No effect  |
| Outlook   | Stable   |
| Translation of the press release or executive summary | <p><b>KEY RATING DRIVERS</b><br/>           ABK's IDRs reflect potential support from the Kuwaiti authorities, as reflected in its Government Support Rating (GSR) of 'a'. The Stable Outlook on ABK's Long-Term IDR mirrors that on the Kuwaiti sovereign rating (AA-/Stable).</p> <p>The 'F1' Short-Term IDR is the lower of two options mapping to a 'A' Long-Term IDR because a significant part of Kuwaiti banks' funding is related to the government and a stress scenario for ABK would likely come when the sovereign itself is experiencing some form of stress.</p> <p>The VR reflects ABK's high loan concentrations and exposure to the volatile Egyptian market. The VR also considers ABK's moderate franchise, healthy asset quality, improving profitability, stable funding, good liquidity metrics and adequate capital ratios.</p> <p><b>Government Support:</b> The Kuwaiti authorities have strong ability and willingness to provide support to domestic banks, if needed, irrespective of the bank's size, franchise, funding and level of government ownership. This view considers the record of supporting domestic banks and the willingness to maintain market confidence and stability given the high contagion risk among domestic banks.</p> |



**Stable Operating Environment:**

The Kuwaiti operating environment is likely to remain stable in 2023 despite slower real GDP growth (2023F: 1.4%; 2022E: 8.4%) and real non-oil GDP growth (2023F: 1.5%; 2022E: 3%). High oil prices will support government spending on wages and investments and help business confidence recover from the pandemic. ABK's operating environment score of 'bbb-' is one notch lower than the standard score for domestic Kuwaiti banks due to its exposure to the weaker and more volatile Egyptian market.

**Franchise Supported by International Operations:**

ABK is a medium-sized bank in Kuwait with a moderate 5% share in domestic sector loans at end-1H22. The bank's franchise and business model are supplemented by the bank's regional diversification in Egypt and the UAE.

**High Risk Appetite:**

ABK's high concentrations both by sector and obligor, albeit similar to peers, and risks originating from its exposure to the volatile Egyptian market weigh on the bank's VR. However, we believe that the bank's reasonable risk management framework and a focus on low-risk corporate exposures mitigate the risks.

**Healthy Asset Quality:**

The Stage 3 loans ratio declined to 1.4% at end-2022 from 1.5% at end-2021 due to write offs and lower impaired loans origination. We expect asset quality to remain healthy in 2023, supported by the stable operating environment in Kuwait and a focus on low-risk corporate borrowers.

**Improving Profitability:**

ABK's performance has recovered over the past two years with an operating profit after provisions/risk-weighted assets (RWAs) ratio of 1.0% in 2022(2021: 0.9%). This was primarily driven by a decrease in loan impairment charges amid a reduced risk appetite. We expect the ratio to increase further to 1.2% in 2023.

**Adequate Capital:** ABK's common equity Tier 1 (CET1) ratio declined to 11.2% at end-2022 from 13.4% at end-2021 but remains adequate. Internal capital generation (2.3% of average equity) was insufficient to compensate for 19% credit growth in 2022, coupled with unrealized other comprehensive losses (0.7% of RWAs) from foreign-currency translation and debt securities revaluation.

**Sound Funding and Liquidity Profile:**

Customer deposits are ABK's main funding source, comprising 79% of the end-2022 non-equity funding base. Deposits are concentrated but have been relatively stable, which mitigates liquidity risks. The bank's liquidity coverage ratio and net stable funding ratio were comfortable at 281% and 111% at end-2022, respectively.

**RATING SENSITIVITIES**

A downgrade of ABK's Long-Term IDR would require a downgrade of the bank's GSR. The latter would likely stem from a weaker ability to support, reflected in a Kuwaiti sovereign downgrade, which is not our base case considering the Stable Outlook on the sovereign rating.

A weaker propensity from the Kuwaiti authorities to support ABK would also lead to negative rating action, but this is unlikely in Fitch's view, given the strong record of supporting domestic banks.

Continuous high loan growth (especially in Egypt) weakening the bank's risk profile, reducing internal capital generation and negatively affecting capitalization could put further pressure on the VR. Weakening asset quality could also lead to a downgrade of the VR, especially if impairment charges pressure the bank's profitability to the extent that it affects capitalization.

**Rating Sensitives:**

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

An upgrade of ABK's Long-Term IDR could result from an upgrade of its GSR. The latter would likely stem from a stronger ability to support, reflected in a Kuwaiti



sovereign upgrade. However, this is unlikely in the near term, given the already high level of the GSR and the recent downgrade of the sovereign.

An upgrade of the VR would require the bank to restore the CET1 capital ratio sustainably above 13%. Should the 13% threshold for the CET1 capital ratio be maintained, further upgrades would require a more diversified business model as well as sustainable improvements in asset quality and profitability.

#### **VR ADJUSTMENTS**

The operating environment score of 'bbb-' is below the 'a' category implied score due to the following adjustment reasons: size and structure of economy (negative), financial market development (negative) and international operations (negative). The asset quality score of 'bb' has been assigned below the 'bbb' category implied score due to the following adjustment reason: impaired loan formation (negative).

#### **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, 3/23/23, 6:33 PM Fitch Affirms Al Ahli Bank of Kuwait at 'A'; Stable Outlook.

