

Credit Rating Disclosure Form

Date	20/07/2016
Name of Listed Company	Burgan Bank (K.P.S.C)
Rating Agency	Fitch Ratings
Rating Category	'BBB' long-term Foreign Currency Issuer Default rating (IDR) assigned to subsidiary, Burgan Bank AS– Turkey.
Rating Drivers	<p>IDRS, NATIONAL RATING AND SENIOR DEBT</p> <p>The bank's IDRs and National Rating are driven by potential support from Burgan Bank Kuwait (BBK; A+/Stable). Fitch believes there is a high probability BBT would receive support from its parent in case of need based on the majority ownership, integration, strategic importance to its parent as well as common branding.</p> <p>BBT's Long-Term Foreign Currency IDR is constrained by Turkey's 'BBB' Country Ceiling. Its 'BBB+' Long-term local currency IDR also takes into account Turkish country risks. The Stable Outlook on the bank's Long-term IDRs and National Rating mirrors that on the Turkish sovereign. BBK's own ratings are driven by Fitch's expectation of a very high probability of support from the Kuwaiti authorities should it be required. Fitch believes that support for BBT from the Kuwaiti government would flow through to BBK in case of need</p>
Rating Impact on the Company's Status	Bank's long term IDR (issuer default rating) rated 'Good Credit quality'
Rating Outlook	"Stable" Outlook.
Translation of the Press Release or the Executive Summary	<p>Fitch Rates Turkey's Burgan Bank A.S. 'BBB'; Outlook Stable</p> <p>Fitch Ratings-London-20 July 2016: Fitch Ratings has assigned Turkey's Burgan Bank A.S. (BBT) a Long-Term Foreign Currency Issuer Default Rating (IDR) of 'BBB' and Long-Term Local Currency IDR of 'BBB+'. The Outlooks on the Long-Term IDRs are Stable. A full list of ratings is available at the end of this rating action commentary.</p> <p>KEY RATING DRIVERS</p> <p>IDRS, NATIONAL RATING AND SENIOR DEBT</p> <p>The bank's IDRs and National Rating are driven by potential support from Burgan Bank Kuwait (BBK; A+/Stable). Fitch believes there is a high probability BBT would receive support from its parent in case of need based on its majority</p>

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VR

BBT's Viability Rating (VR) of 'b+' reflects the bank's recent rapid loan growth and high levels of foreign currency lending, due to a corporate and commercial focus, which results in the bank's high risk appetite. The VR also reflects the bank's limited franchise. BBT accounted for a moderate 0.5%-0.6% of sector assets, loans and deposits at end-Q116.

However, the VR is supported by BBT's reasonable asset quality to date and the benefits of ongoing ordinary funding and capital support from BBK. Since its acquisition by BBK, BBT has shifted its strategy to offering primarily banking services to corporate and commercial customers in Turkey.

Non-performing loans (overdue by 90 days or more) were equal to a low 2.8% of gross loans at end-1Q16, which compares well with BBT's peer and sector averages. However, recent rapid loan growth (notwithstanding a slower pace in Q116) means that asset quality problems could increase as the loan book seasons, in Fitch's view. The bank's high share of foreign currency loans (end-1Q16: 62% of total performing loans) heightens credit risk in case of TRY depreciation. FC loans consist mainly of long-term exposures, often to weakly hedged borrowers, including some companies in vulnerable sectors such as tourism.

Reserve coverage of impaired loans (57% at end-Q116) is low compared with the sector average (75%), which management attributes to a focus on collateralised commercial and corporate lending.

Fitch also views BBT's Fitch Core Capital ratio of 8.8% at end-1Q16 as low for the bank's risk profile and relative to peers. However, its total regulatory capital ratio of 17% at end-1Q16, which is underpinned by significant subordinated debt provided by BBK, is much stronger and exceeds sector and peer averages. BBK has injected both equity and subordinated debt to support BBT's growth, and further capital support is likely to be required given BBT's still weak internal capital generation (1Q16: 2.5%) and further budgeted loan growth. BBK is willing to provide such support, in Fitch's view, including through the conversion of subordinated debt into equity. An equity injection of TRY150m is projected for 2018.

BBT's gross loans/deposits ratio (end-1Q16: 145%) is high in absolute terms and compared with the sector average (123%), reflecting high reliance on wholesale funding (end-1Q16: 38% of liabilities, albeit down from 49% at end-2013).

However, 51% of wholesale funding is sourced from BBK in the form of senior and subordinated debt, which reduces refinancing risk. The bank's modest liquidity coverage ratio (73% at end-1Q16, only slightly above the regulatory minimum of 70%) also reflects reliance on liquidity support from BBK in case of need.

Performance is weak with the bank reporting a return on equity (ROE) of 2.5% in 1Q16 (2015: 5.3%). This reflects the bank's small size and growth phase as it invests in the development of its franchise without seeing a corresponding increase

in revenues. The cost/income ratio (1Q16: 69%) should improve as investments start to pay off. However, rapid loan growth could result in higher loan impairment charges as loans season, particularly given the bank's high level of FC-denominated loans.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT

A multi-notch downgrade of BBK's Long-Term IDRs, reflecting a weakening of the parent bank's ability to provide support, or a weakening in BBK's propensity to support its subsidiary, could result in a downgrade of BBT's IDRs.

A downgrade of Turkey's sovereign rating and downward revision of the Country Ceiling would result in a downgrade of BBT's IDRs. Conversely, an upgrade of the IDRs would be contingent on a Turkish sovereign upgrade and an upward revision of the Country Ceiling.

The attempted coup in Turkey and the authorities' reaction highlighted political risks to the country's sovereign credit profile. Whether this translates into sovereign rating pressure, and hence also pressure on the Country Ceiling, will depend on the extent to which the government's reaction deepens political divisions and weakens institutional independence. This could undermine policy coherence and heighten the risk of external financing stresses materialising.

Improvement in the bank's franchise without a corresponding sharp increase in risk appetite or weakening of underwriting standards, or a strengthening of the bank's core capital adequacy, could result in upside for the VR. An increase in profitability would also be credit-positive.

The VR could be downgraded in case of further weakening of the bank's core capital ratios due to rapid growth or significant deterioration in asset quality, which in turn erodes profitability.

The rating actions are as follows:

Burgan Bank A.S.

Long-Term Foreign Currency IDR: assigned at 'BBB'; Stable Outlook

Long-Term Local Currency IDR: assigned at 'BBB+'; Stable Outlook

Short-Term Foreign and Local Currency IDRs: assigned at 'F2'

Viability Rating: assigned at 'b+'

Support Rating: assigned at '2'

National Long-Term Rating: Assigned at 'AAA(tur)'; Outlook Stable