Burgan Bank would like to announce that Capital Intelligence (CI), the international credit rating agency, announced that it has affirmed the Rating on Burgan Bank's (BB) Subordinated Bond Issue at 'BBB+'. This Rating is set one notch below the CI Foreign Currency Long-Term Rating of 'A-' for the Bank and reflects that the Bond is a subordinated instrument. The Rating is supported by BB's improving asset quality as evidenced by the decline in non-performing loans (NPLs) and strengthened loan-loss reserve (LLR) cover, comfortable liquidity and solid capital adequacy. Although profitability is sound at the operating level, the Rating is constrained by BB's still modest profitability at the net level due to continued high provisioning (although this is likely to reduce in future periods), by customer deposit concentrations, and the Bank's significant exposure to lower rated sovereigns through its operating bank subsidiaries. The main constraining factor on the Rating is however the subordinated nature of the obligation.

BB, currently Kuwait's second largest conventional commercial bank by consolidated assets, is majority owned by Kuwait Projects Company Holding (KSC) (KIPCO). KIPCO, one of the largest diversified holding companies in the MENA region, has held an effective controlling interest in the Bank for nearly two decades. BB's risk asset profile was significantly modified after it acquired (and successfully integrated) four MENA regional banks from KIPCO group sister company United Gulf Bank. While BB has become one of the most regionally diversified Kuwaiti commercial banks, with a clear focus on the MENA region, the takeover of the bank subsidiaries raised its risk exposure to lower rated sovereigns (namely Jordan, Algeria, Iraq, Tunisia and more recently Turkey) from an earlier negligible level. The economy and operating environment in these countries remains challenging to some extent and underlying credit risk has increased.

Following a sharp increase in NPLs in 2011, mainly due to large impaired exposures in Kuwait and to a lesser extent in Jordan, NPLs declined in both absolute and percentage terms in 2012 and into the first nine months of the current year, partly due to settlements, write-offs and asset swaps. Equally important, BB has continued to build up LLRs and these now provide more than full cover for NPLs.

Liquidity as measured by key indicators remains strong and among the best in the Kuwaiti market, reflecting BB's lower share of loans in total assets, combined with its larger stock of liquid assets. However, CI also notes that a significant proportion of this liquidity is at the subsidiary banks level. Funding is sourced predominantly from customer deposits and these continue to grow at a healthy pace. In common with most (but not all) Kuwaiti banks, BB's balance sheet continues to be solidly capitalised. The KWD100mn subordinated bond (issued in 2012) has replenished regulatory capital and provides good scope for further expansion. Internal capital generation has recovered due to improved profitability and the ongoing conservative dividend policy.

Although profitability at both the operating and net levels has improved in recent years, the return on average assets remains modest in part due to a lower net interest margin (estimated). The latter, is partly a function of the Bank's better liquidity and higher proportion of subordinated debt (interest paying) in the capital structure. Gross income generation remains good, reflecting multiple sources of revenue, while BB's sound operating profitability provides the flexibility to step up provisioning if necessary.

BB commenced operations in 1977 as a government-owned bank. In 1997, the Bank was privatised with KIPCO obtaining control. During 2007, KIPCO increased its ownership in BB to 43.01% from 33.87%, cementing BB's status as a core member of the KIPCO Group. The second largest shareholder is United Gulf Bank (17.86%) in Bahrain. Through its domestic network of 26 branches, which is supplemented by 109 ATMs, the Bank provides corporate/commercial banking, as well as retail and private banking. As at end-September 2013, total assets rose to KWD6.51 billion (USD23.02 billion) and total capital was KWD611mn (USD2.16 billion).