

Credit Rating Disclosure Form

Date	26 October 2016
Name of Listed Company	Burgan Bank (K.P.S.C)
Rating Agency	Capital Intelligence Ratings Ltd.
Rating Category	<p>Long-term Issuer Rating (Foreign currency) A- (Stable outlook) Short-term Issuer Rating (Foreign currency) A2 (Stable outlook) Financial Strength Rating (FSR): BBB+ (Stable outlook)</p> <p>CI's international issuer credit ratings indicate the general creditworthiness of an entity (such as a bank, corporate or sovereign) and the likelihood that it will meet its financial obligations in a timely manner. Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.</p> <p>Long-Term Issuer Ratings – “A” High credit quality. Strong capacity for timely fulfilment of financial obligations. Possesses many favourable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions.</p> <p>Short-Term Issuer Ratings – “A2” Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.</p> <p>Capital Intelligence appends "+" and "-" signs to foreign and local currency long term ratings in the categories from "AA" to "C" to indicate that the strength of a particular rated entity is, respectively, slightly greater or less than that of similarly rated peers.</p> <p>CI's financial strength ratings provide an opinion of a bank's inherent financial strength, soundness and risk profile. These ratings do not address sovereign risk factors, including transfer risk, which may affect an institution's capacity to honour its financial obligations, be they local or foreign currency. Financial strength ratings also exclude support factors, which are addressed by foreign and local currency ratings, as well as CI's support ratings. However, financial strength ratings do take into account the bank's operating environment including the economy, the structure, strength and stability of the financial system, the legal system, and the quality of banking regulation and supervision. Financial strength ratings do not assess the likelihood that specific obligations will be repaid in a timely manner.</p> <p>Financial Strength Ratings – “BBB” Basically sound overall; slight weaknesses in financial or other factors could be remedied fairly easily. May be limited by unstable operating environment.</p> <p>Capital Intelligence appends "+" and "-" signs to financial strength ratings in the categories from "AA" to "C" to indicate that the strength of a particular institution is, respectively, slightly greater or less than that of similarly rated peers.</p>

Rating Drivers	<p>Supporting the Rating</p> <ul style="list-style-type: none"> • Sound loan asset quality notwithstanding the increase in non-performing loans (NPLs) in H1 2016 – more than full loan-loss reserve (LLR) cover maintained. • Recent AT1 capital issues combined with a reduction in total risk weighted assets (RWAs) in 2015 have increased capital adequacy ratio (CAR) to a good level. • Very comfortable liquidity, underpinned by deep base of customer deposit funding. • Improved profitability at both operating and net levels, despite the fall in H1 2016. • Established domestic franchise, complemented by diversified MENA regional presence. <p>Constraining the Rating</p> <ul style="list-style-type: none"> • Considerable exposure to non-investment grade sovereigns (Turkey, Algeria, Tunisia and Iraq) through operating subsidiary banks, coupled with elevated credit and political risks. • Very high exposure to related parties. • Large concentrations within the customer deposit base and, to a lesser extent, in loans. • Operating environment remains challenging, both domestically and regionally, exacerbated by the sharp fall in the oil price.
Rating Impact on the Company's Status	<p>No change in ratings.</p> <p>Ratings affirmed with stable outlook</p>
Rating Outlook	<p>“Stable” Outlook</p>
Translation of the Press Release or the Executive Summary	<p>The international credit rating agency, announced today that it has maintained Kuwait-based Burgan Bank (BB)'s Financial Strength Rating (FSR) at 'BBB+', given the more than satisfactory loan asset quality – including strong loan-loss reserve (LLR) cover for non-performing (NPLs), the recent capital injections and consequent improvement in capital adequacy ratio (CAR), and good liquidity underpinned by customer deposit funding. The general improvement in profitability, notwithstanding the decline in H1 2016, and the Bank's geographically diversified asset base and revenue streams are also supporting factors to some degree.</p> <p>The rating is constrained by BB's high exposure to non-investment grade sovereigns through operating subsidiary banks, considerable exposure to related parties, and by high customer concentrations in deposits and, to a lesser extent, in loans – although this is to a large degree systemic. Also constraining the rating is the still challenging operating environment and elevated credit risk, both domestically and regionally, exacerbated by the sharp fall in the oil price. The Outlook for the FSR is affirmed as 'Stable'.</p> <p>The Bank's Support Rating of '2' is also affirmed, reflecting the explicit government guarantee of customer deposits held with banks within Kuwait, which remains in force, as well as the high likelihood of official and shareholder financial support, in case of need. In view of this support, and the aforementioned factors, CI Ratings maintains the Bank's Long- and Short-Term Foreign Currency Ratings (FCRs) at 'A-' and 'A2', respectively. The Outlook on the FCRs is also kept at 'Stable'.</p> <p>BB, currently Kuwait's second largest conventional commercial bank by consolidated assets, is majority owned by the prominent Kuwait Projects Company Holding (KIPCO). KIPCO, one of the largest holding companies in the MENA region, has held an effective controlling interest in the Bank for almost two decades. BB's risk asset profile was significantly modified over the past after it acquired (and integrated) four MENA regional banks from Bahrain-based United Gulf Bank, a KIPCO group sister company. The subsequent – and final – acquisition of what became Burgan Bank Turkey in 2012 completed the Bank's regional expansion drive. BB has since become one of the most regionally diversified Kuwaiti commercial banks with a clear focus on</p>

the MENA region, having previously been exclusively focused on the Kuwaiti market. Concurrently, however, the takeover and integration of those banks has significantly increased BB's risk exposure to low rated sovereigns from an earlier negligible level. The economies and operating environments in these countries remain challenging. That said, it is worthy of mention that the banks are managed by BB, with business strategy and credit policy also set by BB.

Although NPLs grew moderately in H1 2016, following the decline in the previous year, the NPL to gross loans ratio remained at a more than satisfactory level – albeit higher than the peer group average – while LLRs continued to provide more than full cover. This, together with a solid capital base, means that the effective coverage ratio is also sound. However, credit and political risks in BB's markets remain elevated, although to a much lesser degree in Kuwait itself. There may, therefore, be a further increase in NPLs over the near term, despite the significant reduction seen in the Bank's past due not impaired (PDNI) loans less than 90 days.

Liquidity, as measured by key indicators, remains good reflecting BB's moderate share of loans in total assets. CI, however, notes that a significant proportion of liquidity is at the subsidiary banks' level in the form of bank placements and cash, and to a lesser extent government securities. BB's funding is sourced predominantly from customer deposits, with a significant retail component. That said, expensive time deposits continued to dominate customer deposit funding. Customer deposit concentrations remain very high – as is the case with other Kuwaiti banks – although these deposits largely relate to government and semi-government entities. These depositors, in fact, increased their balances into H1 2016, in contrast to some governments in other GCC countries. One mitigating factor in this regard is BB's demonstrated and ready access to the capital market for term funding.

BB's balance sheet is currently well capitalized, following the successful rights issue and Perpetual Tier 1 issue in 2014 together with a reduction in total risk weighted assets in 2015 – in large part due to the sale of subsidiary Jordan Kuwait Bank to another KIPCO company. These have helped lift the Bank's CAR and CET 1 ratio to a sound level, and at the same time reduced balance sheet leverage, as measured by the ratio of total capital to total assets. However, internal capital generation was low in H1 2016. Notwithstanding a moderate decline in gross income in H1 2016, due to lower forex trading income and a further fall in fees and commissions, BB's ratio of gross income to average total assets was still sound. Operating profitability is satisfactory, although it too declined in H1 of the current year due to the combination of lower gross income and a moderate increase in operating expenses. At the current level, the Bank's operating profitability however continues to provide the flexibility to step up provisioning as and when necessary. The return on average assets (ROAA, annualized) slipped in mid-year 2016 to a modest level, but remained broadly in line with the average for the Kuwaiti banking sector. The sale of JKB in 2015 did not materially impact BB's profitability ratios.

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 41.2%, cementing BB's status as the largest and core member of the KIPCO Group. The second largest shareholder is UGB (15%) in Bahrain. Through its domestic network of 28 branches, which is supplemented by 130 ATMs, the Bank provides corporate/commercial banking, as well as retail and private banking. As at end-June 2016, total assets rose to KWD7.18 billion (USD23.8 billion) and total capital reached KWD663mn (USD2.19 billion).

	Credit Ratings					
	Foreign Currency		Financial Strength	Support	Outlook	
	LT	ST			FC	FSR
	A-	A2	BBB+	2	Stable	Stable