Credit Rating Disclosure Form

Date	__February 2017
Name of Listed Company	Burgan Bank (K.P.S.C)
Rating Agency	Capital Intelligence Ratings Ltd.
Rating Category	**Burgan Bank's KWD100mn Subordinated Bond (Basel III compliant): BBB** Bonds and financial obligations that are rated BBB are regarded as medium-grade. These securities are neither highly nor lowly protected. Both interest payments and principal security are currently adequate but certain protective elements may be missing or may be slightly more unreliable over the longer-term. Obligations rated BBB do not display very strong investment characteristics. The obligations form the lowest investment grade level and some may possibly possess speculative characteristics.
Rating Drivers	**Supporting the Rating** • Satisfactory loan asset quality notwithstanding slippage and consequent reduction in loan-loss reserve (LLR) coverage in Q3 2016. • Recent AT-1 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; successful EMTN issue in Q3 2016. • Satisfactory profitability at both operating and net levels, despite the fall in Q1-Q3 2016. • Established domestic franchise, complemented by diversified MENA regional presence. **Constraining the Rating** • The subordinated status of the Bond; conditions of issuance means government support to enable repayment of the Bond is not assumed. • Considerable exposure to non-investment grade sovereigns (mostly Turkey and to lesser degree Algeria, Tunisia & Iraq) through operating subsidiary banks, where credit and political risks are high. • Very high exposure to related parties. • Large concentrations within the customer deposit base and, to a lesser extent, in loans. • Operating environment remains challenging exacerbated by the sharp fall in the oil price, notwithstanding recent moderate rebound.
Rating Impact on the Company's Status	No change in ratings. Ratings affirmed with stable outlook
Rating Outlook	"Stable" Outlook
Translation of the Press Release or the Executive Summary	**Burgan Bank's KWD100mn Subordinated Bond (*Basel III compliant*) Rating Affirmed with a 'Stable' Outlook** **Capital Intelligence Ratings (CI Ratings or CI)**, the international credit rating agency, announced today that it has affirmed the 'BBB' Rating for Burgan Bank's (BB) KWD100mn Subordinated Bond (Basel III compliant). The 'Stable' Outlook for the Bond was also maintained. The terms and conditions applying to the issue include a '*non-viability clause',* which essentially allows the Central Bank of Kuwait (CBK) – at its sole discretion – to require the Bond to be

written off in its entirety. While there have been no formal guidelines issued as to what financial metrics or conditions would trigger this course of action, it has been assumed that such a trigger would not be activated as long as the capital adequacy of the Bank remains above the CBK's minimum – with this calculation being made after the Bank has complied with mandatory provisioning requirements. Moreover, it is clear from the wording of the issue prospectus that either action would be expected to precede any government support being made available. Therefore, given the specific features of the bond issue including its subordination together with CI Ratings' view on how the CBK is expected to resolve a distressed bank, the assigned rating of this Subordinated Bond is set one notch below the Bank's Financial Strength Rating of 'BBB+'.

The Subordinated Bond's rating is supported by the Bank's satisfactory loan asset quality, notwithstanding some slippage in the first nine months of 2016, the recent capital injections and consequent improvement in capital adequacy, and good liquidity underpinned by customer deposit funding. BB's continued demonstrated access to the capital market also supports the Rating. The general improvement in profitability, notwithstanding the decline in Q1-Q3 2016, and the Bank's geographically diversified asset base and revenue streams are also supporting factors to some degree. The main constraining factor on the rating is the subordinated nature of the obligation – and the impact on the instrument should the issuer encounter sufficiently serious adverse financial conditions. The rating is also 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 – notwithstanding the moderate rebound seen in recent periods.

BB, currently Kuwait's second largest conventional commercial bank by consolidated assets, is majority owned by the prominent Kuwait Projects Company Holding KSC (KIPCO). BB's risk asset profile was significantly modified in the past after it acquired four MENA regional banks – in Jordan (subsequently sold), Algeria, Tunisia, and Iraq − from a KIPCO group sister company. BB's subsequent – and final − acquisition of what became 'Burgan Bank Turkey' (BBT) 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 the MENA region.

Although non-performing loans (NPLs) resumed growth in the first nine months of 2016, following a decline in the previous year, the NPL to gross loans ratio remained at a satisfactory level – albeit higher than the peer group average. As a consequence of higher NPLs, the Bank's loan-loss reserve cover declined but remained in excess of 100%. Management expects swift resolution of the accounts with nil additional cost of risk being incurred. CI notes, however, that credit and political risks across BB's markets remain high, although to a much lesser degree in Kuwait itself, and the possibility of a further increase in NPLs over the near term cannot be ruled out. Liquidity, as measured by key indicators, remains good, reflecting BB's moderate share of loans in total assets. Funding is sourced predominantly from customer deposits, with a significant retail component. Customer deposit concentrations, however, remain very high – as is the case with other Kuwaiti banks – although these deposits largely relate to government and semi-government entities in Kuwait. These depositors in fact increased their balances in the first nine months of 2016, in contrast to some governments in other GCC countries. BB's effective customer deposit gathering capability is complemented by demonstrated and ready access to the capital markets for funding.

The balance sheet is currently well capitalised, following the past successful capital raising exercises, including a rights issue. However, BB's internal capital generation was low in Q1-Q3 2016, partly due to a rather generous dividend payout, as well as increased foreign currency translation and investment revaluation losses (under the reserve account). Given ongoing Turkish Lira devaluation, additional foreign currency translation losses are expected in the current period but these should pose limited downside risks to BB's capital ratios.

BB's gross income generation capability remains good, supported by diversified sources of net interest income and non-interest income. Notwithstanding a moderate decline in gross income,

	BB's ratio of gross income to average total assets remained sound at end Q3 2016. Fee and commission income was adversely impacted by the contraction in trade finance activity in Algeria after the government imposed import restrictions. Operating profitability is satisfactory following a rebound in 2015, although it too declined during the first nine months of 2016 due to the effect of lower gross income and a marginal increase in operating expenses. The return on average assets (annualised) – and net profit – fell in Q1-Q3 2016 to a modest level and remained broadly on par with the average for the Kuwaiti banking sector. The Bank commenced operations in 1977 as a government-owned bank. In 1997 BB was privatised with KIPCO obtaining control. During 2007 KIPCO increased its ownership in BB to 43.01%, cementing BB's status as the largest and core member of the KIPCO Group. The second largest shareholder is UGB (17.86%) 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-September 2016, total assets were KWD7.1 billion (USD23.55 billion) and total capital was KWD677mn (USD2.25 billion).