Capital Intelligence (CI), the international credit rating agency, announced today that it has affirmed the Rating for Burgan Bank's (BB) Subordinated Bond issued in December 2012 at 'BBB+'. This rating is set one notch below the Bank's Long-Term Foreign Currency Rating of 'A-' to reflect that the Bond is a subordinated instrument.

The rating is supported by BB's improved asset quality in recent years, comfortable liquidity, the successful Perpetual Tier 1 issue earlier this year and the very recent oversubscribed rights issue in November 2014.

The Bank's geographically diversified asset base and revenue streams are also a supporting factor to some degree. The Financial Strength Rating is constrained by BB's high indirect exposure to non-investment grade sovereigns through subsidiary banks, by large and considerably increased exposure to related parties, and by the significant customer concentrations in both loans and customer deposits (although this is to an extent systemic). Also constraining the FSR is still modest net profitability despite the rebound in the first nine months of this year, and the ongoing difficult regional operating environment. The main constraining factor on the rating is, however, the subordinated nature of the obligation. The Outlook for the Bond's rating is maintained at 'Stable'.

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 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 over the recent past after it acquired (and 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 low 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 and the underlying credit and political risks have increased in recent periods.
Although non-performing loans (NPLs) rose in the first nine months of 2014, following successive declines in the prior two years, the NPL to gross loans ratio remained at an acceptable level and loan-loss reserves (LLRs) continued to provide more than full cover. 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. CI, however, 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. BB allowed some relatively expensive customer deposits to run off in Q1-Q3 2013 in response to the successful capital increase in September.

In common with most (but not all) Kuwait banks, BB's balance sheet continues to be solidly capitalised, following its Perpetual Tier 1 issue in September of the current year. This has helped restore the capital adequacy ratio (CAR) to a strong level from the decline in 2013. Although the CAR is projected to fall at the current year end following adoption of Basel III, the very recent successful rights issue in November 2014 has raised additional fresh capital and this is expected to maintain CAR at a comfortable level.

Although net profit recovered in the first nine months of the current year compared with the same period in 2013, lifted by a lower provision charge, the return on average assets (ROAA) remains modest in part due to ongoing provisioning requirements and a low net interest margin. Gross income generation remains good nevertheless, reflecting multiple sources of revenue, while 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 network of 27 branches in Kuwait, which is supplemented by 117 ATMs, the Bank provides corporate/commercial banking, as well as retail 2 and private banking. As at end-September 2014, total assets rose to KWD7.48 billion (USD25.9 billion) and total capital was KWD846mn (USD2.93 billion).

CREDIT RATINGS Issue Rating	**Outlook**
BBB+	**Stable**