

Rating Action: Moody's concludes review on Kuwait's Burgan Bank; assigns Counterparty Risk Assessment

*Actions follow conclusion of Moody's methodology-related review*

Limassol, 15 June, 2015 -- Moody's Investors Service has today confirmed the A3 deposit ratings of Burgan Bank S.A.K.P (Burgan). Concurrently, Moody's lowered the bank's baseline credit assessment to ba2, confirmed the bank's adjusted BCA at ba1, which now includes one notch of affiliate support. At the same time, Moody's confirmed Burgan Finance No.1 (Jersey) Limited's foreign-currency subordinated debt rating at Ba1. The bank's deposit ratings now carry a stable outlook.

Today's rating action concludes the review initiated on 17 March 2015 (see press release at [https://www.moodys.com/research/Moodys-reviews-global-bank-ratings--PR\\_321005](https://www.moodys.com/research/Moodys-reviews-global-bank-ratings--PR_321005)), following the publication on 16 March of Moody's revised bank rating methodology.

Moody's has withdrawn the outlooks on subordinated debt ratings for its own business reasons. Please refer to Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, [www.moodys.com](http://www.moodys.com). Outlooks, which provide an opinion on the likely rating direction over the medium term, are now assigned only to long-term deposit ratings.

Moody's has also assigned a Counterparty Risk (CR) Assessment of A2(cr)/Prime-1(cr) to Burgan.

#### RATINGS RATIONALE

#### CONCLUSION OF THE REVIEW

The conclusion of the review follows Moody's publication of its updated bank rating methodology. The revised methodology, "Banks", contains new aspects that Moody's has developed to help accurately predict bank failures and determine how each creditor class is likely to be treated when a bank fails and enters resolution. These new elements capture insights gained from the financial crisis and the fundamental shift in the banking industry and its regulation.

#### --- LOWERED BCA

The lowering of Burgan's BCA to ba2 reflects Moody's assessment that while the bank is exposed to a weaker operating environment, compared to many other Kuwaiti and Gulf banks, Burgan's capitalisation, as expressed by Moody's tangible common equity to risk-weighted assets ratio (TCE/RWAs), remains below that of similarly rated domestic and regional peers.

Specifically, Burgan has growing operations in a number of countries where operating conditions are weaker than Kuwait's, including Turkey, Jordan, Algeria, Tunisia and Iraq. Around 40% of Burgan's total assets are in these countries, leading to a Macro Profile assessment of Moderate+ for the bank that is weaker than other rated conventional banks in Kuwait (the Macro Profile of Kuwait is Strong-). Moody's Macro Profile, which was introduced in the new banking methodology, recognises the more significant influence differing operating environments play in conditioning bank risk. Thus, banks operating in more

adverse macroeconomic environments would generally need stronger financial metrics to achieve the same factor scores as banks operating in more favourable environments.

At the same time, although Burgan's capitalisation is improving, driven by the phased introduction of the Central Bank of Kuwait's Basel III regulations, Moody's expects that its TCE/RWAs will remain below that of peers driven by its particular focus on capital management and asset growth. The bank's TCE/RWAs was 9% at end-2014 compared to a median of around 15% for other rated Kuwaiti banks and an 11% median for other ba1 BCA global banks operating in a Moderate+ Macro Profile. Moody's TCE/RWAs capitalisation metric is designed to provide a globally consistent measure of capitalisation and make it easier to compare banks operating under different regulatory regimes. It receives a 25% weight under the revised methodology.

The bank's ratings also reflect its good liquidity, stable pre-provision income and substantial progress in reducing the volume of non-performing loans. At the same time, loan provisioning expenses continue to be relatively high, while credit concentrations and high related-party exposures indicate elevated credit risks. Although the bank's regional expansion improves balance-sheet and earnings diversification, these benefits are counterbalanced by the unseasoned nature of its overseas portfolios.

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