

## Credit Rating Disclosure Form

<b>Date</b>	19/01/2016
<b>Name of Listed Company</b>	Burgan Bank (K.P.S.C)
<b>Rating Agency</b>	<b>Moody's Investors Service</b>
<b>Rating Category</b>	A3 with "Stable" Outlook.
<b>Rating Drivers</b>	<p><b>WHAT COULD CHANGE THE RATINGS UP/DOWN</b></p> <p>Any positive rating pressure is conditional on (1) materially enhanced tangible common equity ratio; (2) reduction of balance-sheet concentrations and easing of related-party exposures; and (3) seasoning of the bank's lending portfolios and a normalisation of asset-quality metrics, specifically in terms of provisioning requirements.</p> <p>Downward rating pressure will emerge on evidence of deteriorating credit conditions and asset-quality pressures. Challenges in managing risks of regional operations would also have negative rating implications, as would growth in its asset base outpacing the enhancement of the bank's common equity. The bank's deposit ratings would be downgraded upon indications of diminished willingness by its parent group to provide support.</p>
<b>Rating Impact on the Company's Status</b>	No Material Impact
<b>Rating Outlook</b>	"Stable" Outlook.
<b>Translation of the Press Release or the Executive Summary</b>	<p><b>Rating Action: Moody's affirms A3 deposit rating of Kuwait's Burgan Bank following sale of Jordanian subsidiary</b></p> <p>Moody's Investors Service, ("Moody's") has today affirmed the A3/Prime-2 deposit ratings and A2(cr)/Prime-1(cr) Counterparty Risk (CR) Assessment of Burgan Bank K.P.S.C., which are underpinned by a ba2 baseline credit assessment (BCA). The bank's deposit ratings carry a stable outlook.</p> <p>Today's rating action follows the recent sale of Burgan's 51% stake in Jordan Kuwait Bank (JKB) to a subsidiary of the Kuwait Projects Company Group (KIPCO, Baa3 stable), Burgan Bank's own parent company, and mainly reflects: (1) the positive impact on the bank's capital metrics from the sale is within Moody's expectations and</p>

allows the bank to meet the Central Bank of Kuwait's enhanced capital requirements while continuing its growth strategy; (2) the modest impact on the bank's geographical asset exposure (as defined by Moody's Macro Profile, which remains unchanged) and our expectation that the bank will continue to focus on diversification into high growth and relatively (compared to Kuwait ) higher risk markets.

#### RATINGS RATIONALE

##### -- IMPACT ON CAPITAL WITHIN MOODY'S EXPECTATIONS

The primary immediate consequence of the transaction is the positive impact on regulatory capital metrics. According to the bank's own estimates its Basel III common equity Tier 1 (CET1) capital ratio will increase to 11.3% as of end-2015 (including an estimate for full-year 2015 retained earnings). This is driven by a reduction in RWAs by over KWD500 million as a result of the deconsolidation of JKB's assets and a reduction in goodwill and intangibles by KWD115 million, due to the JKB stake sale, that were previously deducted from CET1.

This positions the bank to meet a minimum CET1 ratio of 10.5% by end-2016 required by the Central Bank of Kuwait, which includes a 2.5% capital conservation buffer and a 1.0% domestic systemically important bank (D-SIB) buffer that is specific to Burgan Bank while allowing it to continue to grow. The regulatory minimum CET1 as of end-2015 was 9.0%.

Nonetheless, although Burgan's capitalisation is improving and will allow it to meet the regulatory capital requirement under the phased introduction of the Central Bank of Kuwait's Basel III regime, Moody's expects that its tangible common equity ratio (TCE/RWAs) will remain below that of peers, at around 10.5% to 11% during 2016 given Burgan's focus on tight capital management and strong asset growth in key markets (mainly Kuwait and Turkey). The average TCE/RWAs for other rated Kuwaiti banks was around 15% (data as of end-2014).

##### -- MACRO PROFILE REMAINS UNCHANGED WHILE BANK CONTINUES DIVERSIFICATION DRIVE IN HIGH GROWTH MARKETS

The transaction leaves the bank's Macro Profile unaffected at Moderate+, supported by its operations in Kuwait (Macro Profile of Strong-) but also constrained by its exposure to the relatively weaker Macro profiles of Turkey (Moderate) and North Africa (Weak+). Following the transaction the bank is no longer exposed to the Weak+ Macro Profile of Jordan.

The transaction reduces the bank's diversification to oil-importing Jordan. JKB made up 12% and 16% of Burgan's consolidated net loans and revenue respectively for the nine months to September 2015. However, we expect the bank to continue its diversification strategy and to focus on high growth markets. According to the bank's statements, it expects to mitigate the net income impact from JKB's deconsolidation of KD7 million within the year through organic growth at its Middle-East and North Africa subsidiaries in addition to its Kuwaiti home market.

##### -- DEPOSIT RATINGS CONTINUE TO BENEFIT FROM AFFILIATE AND GOVERNMENT SUPPORT

Burgan's A3 deposit rating incorporates one notch of affiliate support and four-notches of government support uplift. This reflects Moody's view of a moderate likelihood of support to Burgan from its majority shareholder, KIPCO, and a very high likelihood of support from the Kuwaiti government (Aa2 stable) in case of need.

Moody's affiliate support assessment reflects KIPCO's 63% ultimate holding in Burgan, significant board representation and the importance of the bank as the largest holding of the KIPCO group.

The rating agency's government support assessment reflects the Kuwaiti authorities' strong track record in supporting all banks encountering difficulties, and Burgan's relative importance to the country's banking system as Kuwait's third-largest financial group. The outlook on the bank's A3 deposit rating is stable, in line with the stable outlooks for Kuwait and KIPCO.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

Any positive rating pressure is conditional on (1) materially enhanced tangible common equity ratio; (2) reduction of balance-sheet concentrations and easing of related-party exposures; and (3) seasoning of the bank's lending portfolios and a normalisation of asset-quality metrics, specifically in terms of provisioning requirements.

Downward rating pressure will emerge on evidence of deteriorating credit conditions and asset-quality pressures. Challenges in managing risks of regional operations would also have negative rating implications, as would growth in its asset base outpacing the enhancement of the bank's common equity. The bank's deposit ratings would be downgraded upon indications of diminished willingness by its parent group to provide support.

#### LIST OF AFFECTED RATINGS

Burgan Bank K.P.S.C.

- Long-term local and foreign-currency deposit ratings: Affirmed at A3, stable outlook
- Short-term local and foreign-currency deposit ratings : Affirmed as Prime-2
- Adjusted baseline credit assessment (BCA): Affirmed at ba1.
- BCA: Affirmed at ba2.
- Counterparty Risk Assessment: Affirmed at A2(cr)/ Prime-1(cr)