

Burgan Bank would like to indicate that Standard & Poor's Rating Agency has assigned the rating of Burgan Bank as follows:

Issuer Credit Rating - BBB+/Stable/A-2

Major Rating Factors

Strengths:

- A geographically well-diversified lending book.
- A healthy funding base with large government or quasi-government deposits and minimal wholesale funding.
- Resilient operating income with adequate preprovision earnings capabilities.

Weaknesses:

- High single-name lending concentrations and large related-party lending exposures.
- A difficult operating environment in Turkey and high political risks for the operations in Iraq, Jordan, Tunisia, and Algeria.
- Rapid balance sheet growth and expansion in countries with higher economic risk than Kuwait continues to put pressure on capitalization.

Stable

Outlook: Stable

The stable outlook on Kuwait-based Burgan Bank reflects Standard Poor's Ratings Services' expectation that Burgan Bank will raise new capital over the next 12 months. This would enable our risk-adjusted capital (RAC) ratio (before adjustments) for the bank to reach and slightly exceed 7.0% over the next 18–24 months, compared with 5.7% at year-end 2013.

We would consider a negative rating action if Burgan Bank failed to raise additional capital in accordance with its plan in the next 12 months, with the consequence that the projected RAC remains below 7.0%. We would also consider a negative rating action if we observed a significant deterioration in the bank's asset quality. Although we expect the operating conditions in Turkey and Jordan to remain challenging, and the situation in Iraq precarious, we do not foresee major asset quality deterioration for the bank over the next 18–24 months.

Given the challenges in some of the countries where Burgan Bank operates, we believe the next two years will remain difficult for the bank, and we do not foresee a material improvement in any of the key operating or business metrics. Therefore, a positive rating action is remote at this stage.

We could however revise our assessment of the bank's business position to "strong" from "adequate" if we saw a visibly stronger performance at the

overseas operations, particularly in Turkey where Burgan Bank acquired another bank two years ago. Although we acknowledge management's efforts to turn around the Turkish operations, we believe meaningful structural improvements will take some time.

Rationale

We base our ratings on Burgan Bank on the bank's 'bbb-' anchor and our view of its "adequate" business position, reflecting its healthy market position in Kuwait and its geographically diverse revenue generation. We view the bank's capital and earnings as "adequate" as we expect our RAC ratio for the bank to reach and remain above 7.0% over the next 18-24 months. This is in view of the bank's initiatives to raise additional capital in different forms. We assess Burgan Bank's risk position as "moderate," given the high political and economic risk in some of the markets where it operates, as well as its high lending concentrations and large related-party lending exposures. We view the bank's funding as "average" and its liquidity as "adequate." We assess the bank's stand-alone credit profile (SACP) at 'bb+'.

The long-term rating on Burgan Bank is three notches higher than the SACP, reflecting our view of a "high" likelihood that the State of Kuwait would provide extraordinary support to the bank in the event of financial distress. We classify Burgan Bank as having "high" systemic importance in Kuwait and consider Kuwait to be "highly supportive" of the banking sector.

Anchor: 'bbb-' to reflect blended economic risk

Under our bank criteria, we use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The 'bbb-' anchor for Burgan Bank is based on our industry risk score of '5' for Kuwait (on a scale of 1-10, 1 indicating the lowest risk), where the bank is registered and regulated, and a blended economic risk score close to '5'. The blended economic risk score is higher than that for Kuwait ('4') because of higher economic risk scores for countries where the bank has its operations, such as Turkey ('6') and Jordan ('7').

For Kuwait, where the bank has about 60% of its lending exposure, our evaluation of economic risk reflects Kuwait's high national wealth, sustained and consistent trade surpluses, and strong and expanding net international asset base, which makes the country less susceptible to external shocks. However, banks' high loan concentrations, also in real estate and construction, hamper their credit profiles. Regarding industry risk, we believe that the banking industry has largely stabilized and banks enjoy adequate pricing ability without significant market distortions. In addition, funding conditions are favorable. However, despite recent improvements, we still view Kuwait's overall institutional framework as a weakness.