

## Credit Rating Disclosure Form

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| <b>Date</b>  | 5/01/2016  |
| <b>Name of Listed Company</b>                                    | Burgan Bank (K.P.S.C)  |
| <b>Rating Agency</b>   | Fitch Ratings  |
| <b>Rating Category</b>   | A+ with "Stable" Outlook.  |
| <b>Rating Drivers</b>  | IDRs, Support Rating and Support Rating Floor<br>Burgan's Long and Short-term IDRs are support-driven. The bank's Support Rating (SR) and Support Rating Floor (SRF) reflect an extremely high probability of support from the Kuwaiti authorities, to the bank and all Kuwaiti banks, if needed.  |
| <b>Rating Impact on the Company's Status</b>                     | Bank's long term IDR (issuer default rating) rated 'high Credit quality'   |
| <b>Rating Outlook</b>  | "Stable" Outlook   |
| <b>Translation of the Press Release or the Executive Summary</b> | <p style="text-align: center;"><b><u>Fitch Rates Kuwait's Burgan Bank 'A+'; Outlook Stable</u></b></p> <p>Fitch Ratings, London, 4 January 2016: Fitch Ratings has assigned Kuwait-based Burgan Bank SAK (Burgan) a Long-term Issuer Default Rating (IDR) of 'A+' with a Stable Outlook and a Short-term IDR of 'F1'. A full list of rating actions is available at the end of this rating action commentary.</p> <p><b>KEY RATING DRIVERS</b></p> <p>IDRs, Support Rating and Support Rating Floor</p> <p>Burgan's Long and Short-term IDRs are support-driven. The bank's Support Rating (SR) and Support Rating Floor (SRF) reflect an extremely high probability of support from the Kuwaiti authorities, to the bank and all Kuwaiti banks, if needed.</p> <p>Fitch's opinion of support from the authorities reflects Kuwait's strong ability to provide support to its banking sector, as indicated by its 'AA'/Stable rating, combined with the agency's belief that there would be a strong willingness to do so. This opinion is reinforced by the authorities' track record of support for the domestic banking system in case of need.</p> <p>Fitch believes that there is an extremely high probability that all rated Kuwaiti banks that require support would receive it, irrespective of franchise, ownership and support history, and therefore has equalised Burgan's SRF and IDR at 'A+', in line with most other Fitch-rated Kuwaiti banks.</p> <p>Given high contagion risk among domestic banks - as Kuwait is a fairly small and interconnected market - we believe the state has an added incentive to provide support to any Kuwaiti bank if needed, in order to maintain market confidence and stability.</p> <p>The Stable Outlook on Burgan's Long-term IDR reflects the Outlook on the Kuwaiti sovereign rating.</p> <p>Viability Rating</p> <p>Burgan has tight capital ratios given its loan concentrations, rapid growth in challenging regional</p> |

markets and equity-related investments. Capitalisation, therefore, has a high influence on Burgan's Viability Rating (VR).

Despite measures to strengthen regulatory capital, via an AT1 issue, sale of treasury shares, a rights issue and asset sales, the bank's Basel III capital ratios have limited buffer over regulatory minimums. Pressure on capital comes from a combination of rapid growth, fairly high dividend payments and the translation effect of its foreign currency-denominated assets. Nevertheless, Fitch believes Burgan has good access to capital, particularly from its parent Kuwait Projects Co (Holding), KIPCO, a leading regional investment company owned by members of Kuwait's ruling family.

KIPCO has a high influence on Burgan's business and strategic direction as evidenced by acquisitions and investments made and the transfer of assets to Burgan in the past. KIPCO has 42% stake in Burgan (as well as an indirect stake of 17% via United Gulf Bank of Bahrain).

Burgan's business model is unusual in the Kuwaiti banking system, with 43% of its assets held outside the country through five subsidiaries (in Turkey, Jordan, Algeria, Iraq and Tunisia). The bank has a strong domestic franchise with a market share of 11%, and a focus on corporate banking. Burgan has high related party lending, which is reflected in Fitch's assessment on corporate governance and a constraint on the rating.

Management has been stable, has strong international experience and is well qualified to deal with the risks incurred by the subsidiaries. The strategy is clear and closely aligned with that of KIPCO, but a successful implementation will take time to materialise, in Fitch's view, given that some of Burgan's regional markets are now more volatile.

Burgan's asset quality can be volatile in the face of regional economic cycles and therefore more vulnerable than broad industry averages. The bank is also sensitive to event risk from high borrower concentration. As a consequence, Burgan's NPL ratio is among the highest in Kuwait but is expected by Fitch to improve in 2016. Reserve coverage is healthy, in excess of 100%, albeit below peers. Asset quality is also constrained by direct holdings in Kuwaiti corporates and stakes in private equity funds, which expose Burgan to higher equity risk than most Kuwaiti peers.

Burgan demonstrates strong performance, benefiting from the higher returns available in its growth markets, and a strong funding profile.

**RATING SENSITIVITIES**

**IDRS, SR and SRF**

Burgan's IDRs, SR and SRF are sensitive to a change in Fitch's assumptions around the Kuwaiti authorities' propensity or ability to provide timely support to Burgan. At present, Fitch considers the likelihood of any change to be small.

**VR**

Burgan's VR could be upgraded if there is a sustained improvement in its capital ratios commensurate with its risk profile as well as a significant fall in related-party lending. The VR could be downgraded if capital ratios or asset quality weaken further.

**The rating actions are as follows:**

Burgan Bank  
 Long-term IDR assigned at 'A+'; Outlook Stable  
 Short-term IDR assigned at 'F1'  
 Viability Rating assigned at 'bb'  
 Support Rating assigned at '1'  
 Support Rating Floor assigned at 'A+'

Best Regards,

**Khalid Al-Zouman**

