

Credit Rating Disclosure Form

Date	
Name of Listed Company	Burgan Bank (K.P.S.C)
Rating Agency	Fitch Ratings
Rating Category	Long-Term IDR affirmed at 'A+'; Outlook Stable Short-Term IDR affirmed at 'F1' Viability Rating affirmed at 'bb'
Rating Drivers	<p>Burgan's IDRs are support-driven. The Support Rating (SR) and Support Rating Floor (SRF) reflect Fitch's view that there is an extremely high probability of support being provided by the Kuwaiti authorities to all domestic banks if needed.</p> <p>A:High credit quality, 'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong.</p> <p>The VR is underpinned by a strong, experienced and stable management team, acceptable profitability and a diverse franchise</p> <p>This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.</p> <p>F1: Highest short-term credit quality Indicates the strongest intrinsic capacity for timely payment of financial commitments.</p> <p>bb: Speculative fundamental credit quality: 'bb' ratings denote moderate prospects for ongoing viability. A moderate degree of fundamental financial strength exists, which would have to be eroded before the bank would have to rely on extraordinary support to avoid default. However, an elevated vulnerability exists to adverse changes in business or economic conditions over time.</p>
Rating Impact on the Company's Status	Affirmed the Long-term Issuer Default Rating (IDR) of Burgan Bank (Burgan) at 'A+'.
Rating Outlook	"Stable" Outlook
Translation of the Press Release or the Executive Summary	<p>Fitch Ratings, London: 18 October 2016 Fitch Ratings has today affirmed the Long-term Issuer Default Rating (IDR) of Burgan Bank (Burgan) at 'A+'. The Outlook is Stable.</p> <p>KEY RATING DRIVERS IDRS, SUPPORT RATINGS, SUPPORT RATING FLOORS AND SENIOR DEBT</p> <p>Burgan's IDRs are support-driven. The Support Rating (SR) and Support Rating Floor (SRF) reflect Fitch's view that there is an extremely high probability of support being provided by the Kuwaiti authorities to all domestic banks if needed. This is reflected in the SR of '1' and the SRF of 'A+'.</p> <p>Fitch's expectation of support from the authorities is underpinned by Kuwait's strong ability to provide support to its banks, as reflected by its rating (AA/Stable), combined with Fitch's belief that there would be a strong willingness to do so. This view is reinforced by the authorities' record</p>

of support for the domestic banking system in case of need.

The Central Bank of Kuwait operates a strict regime with hands-on monitoring to ensure the viability of the banks, and has acted swiftly in the past to provide support where needed. There is high contagion risk among domestic banks (Kuwait is a relatively small and interconnected market) and we believe this is an added incentive to provide state support to any Kuwaiti bank if needed, in order to maintain market confidence and stability.

The Stable Outlook reflects the Outlook on the Kuwaiti sovereign rating.

VR (Viability Rating)

The Kuwaiti banks continue to benefit from a fairly stable operating environment despite the economic impact of low oil prices. While the banks are exposed to slower economic growth, Fitch believes that the government's continuing capital spending plans will partially offset the pressures. Fitch's assessment of the operating environments of Burgan, also consider its exposure to more challenging markets regionally.

Asset quality continues to improve due to loan write-offs, recoveries and for some banks restructuring. Reserves for NPLs continue to be extremely high due to the prudent actions of the Central Bank, requiring the build-up of precautionary general provisions. We believe high reserve coverage is required due to banks' significant concentration by sector and borrower due to Kuwait's narrow economy. A large part of these exposures are to prominent Kuwaiti family-owned groups that dominate the private sector. Some of these loans appear to be name lending and backed by equities. Corporate governance regulations are slowly improving, but Fitch finds that transparency and disclosure relating to the banks' largest credit exposures remain weak. Many banks remain directly and indirectly exposed to the equity market from share financing (for high net-worth individuals) and equities held as collateral for other lending. The banks are also highly exposed to domestic real estate, a sector that can be volatile and has seen lower prices and sales in 2016. Burgan is exposed to international markets through subsidiaries.

Burgan's VR considers its higher risk appetite given its fast strategic growth in regional markets, relatively weak asset quality, including high credit concentrations and high related party lending. In this context we also consider continuing pressure on regulatory capital ratios. Capitalisation and asset quality therefore have a high influence on the rating. The VR is underpinned by a strong, experienced and stable management team and acceptable profitability. VR factors in also the diverse franchise

SENIOR DEBT

The senior debt rating of Burgan SPC Limited, a special purpose vehicle (SPV) wholly owned by Burgan, is aligned with Burgan's IDRs. Fitch believes that Burgan will support the senior debt issued by the SPV if required.

RATING SENSITIVITIES

IDRS, SUPPORT RATINGS, SUPPORT RATING FLOORS AND SENIOR DEBT

Burgan's IDRs, SRs and SRFs are potentially sensitive to a change in Fitch's assumptions around the Kuwaiti authorities' propensity or ability to provide timely support to the banking sector. At present, we do not consider there is much likelihood of any change.

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.

SENIOR DEBT

The senior debt rating of Burgan SPC limited is sensitive to changes in Burgan's IDRs.

The rating actions are as follows:

Burgan Bank:

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IDR affirmed at 'F1'

Viability Rating affirmed at 'bb'

Support Rating affirmed at '1'

	Support Rating Floor affirmed at 'A+' Burgan Senior SPC Limited: Senior unsecured long-term Rating affirmed at 'A+' Senior unsecured short-term Rating affirmed at 'F1'