

## **SUMMARY RATING RATIONALE**

The Ba3 long-term global local currency (GLC) deposit ratings assigned to Burgan Bank AS (Burgan-AS) are based on the bank's b2 baseline credit assessment (BCA) and our assumption of a very high probability of parental support, from its Kuwait-based parent, Burgan Bank SAK (Burgan-SAK: deposits A3/P-2; /BCA ba2).

Burgan-AS's BCA of b2 captures the bank's (1) historically weak earning metrics compared to the system; (2) niche, but growing, franchise focusing on corporate, commercial and SME with limited retail exposure; (3) satisfactory capitalization after the recent capital injection and; (4) improving asset quality.

We assign Counterparty Risk Assessment (CRA) of Ba2(cr)/Not Prime(cr).

### **Rating Drivers**

- Franchise is constrained by the bank's limited size and its evolving nature
- Although the bank reached positive profits, profitability lags the system average
- Capital injections enable the bank to maintain satisfactory loss absorption capacity
- Asset quality has improved, but risks remain
- Adequate funding and liquidity profile with some dependence on parental funding

### **Rating Outlook**

The outlook on all the ratings is stable.

### **What Could Change the Rating - Up**

Positive pressure on the BCA could develop following material evidence of improvement in the bank's overall franchise and profitability - contributing positively to internal capital generation capacity and capitalisation - without compromising risk appetite and underwriting standards.

An upward rating action of Burgan Bank's supported ratings could be triggered by a similar rating action on Burgan S.A.K.P, although given the stable outlook, this is unlikely in the near future.

### **What Could Change the Rating - Down**

Downward pressure could develop on Burgan-AS's BCA if significant changes in the bank's strategy or management cause adverse developments in its performance leading to (1) a deterioration in profitability; (2) poor asset quality and reduced coverage of non-performing loans; (3) loss of market share; (4) capital growth failing to keep pace with asset growth; and/or (5) tight liquidity indicators with increased reliance on intergroup funds.

A downgrade of Burgan bank AS's supported ratings could be triggered by a downwards rating action in the baseline standalone credit assessment (BCA) of Burgan SAK, or if Moody's lowers its parental support assumptions, leading a reduction in the rating uplift incorporated into Burgan AS's ratings.