TRANSLATION

Date: 3/8/2017
REF: CCG/75/2017

TO: Mr. Khaled Abdulrazaq Al-Khaled
Chief Executive Officer
Boursa Kuwait Securities Company

Greetings,

According to Chapter four (Disclosure of Material Information) of Rulebook ten (Disclosure and Transparency) of CMA Executive By-laws, kindly find attached the Annex No. (9) Disclosure of Credit Rating Form covering the updated credit rating report issued by Moody's on 2/8/2017.

Please note that there is no change from the previous credit rating opinion as issued in March 2017. Please also be advised that according to the issued report the Bank's rating was confirmed at A3 with a stable outlook.

Best Regards,

Yaqoub Habib Al-Ebrahim
Official Spokesman of CBK
GM, Compliance & CG

Copy to:
CMA / Manager, Disclosure Department

NOTE: This is a translation of the original for and binding Arabic text. In case of any difference between the Arabic and the English text, the Arabic text will be prevailing.

Annex (9)

Disclosure of Credit Rating Form

Date	3/8/2017
Name of Listed Company	Commercial Bank of Kuwait (K.P.S.C)
Entity who issues the rating	Moody's
Rating category	– Bank Deposits: A3/P-2 – Baseline Credit Assessment: ba1 – Adjusted Baseline Credit Assessment: ba1 – Counterparty Risk Assessment: A2(cr)/P-1(cr)
Rating implications	"Moody" applies special methodology when evaluating banks, the same can be found on the Agency website. The A3 long-term deposit rating assigned to Commercial Bank of Kuwait K.P.S.C. (CBK) incorporates four notches of uplift from the bank's standalone Baseline Credit Assessment (BCA) of ba1, reflecting our view of a very high probability of support from the Kuwaiti government (Aa2 stable) in case of need. The bank's short-term deposit rating is Prime-2. Furthermore, we have assigned a Counterparty Risk Assessment (CR Assessment) of A2 (cr)/Prime-1(cr) to CBK. CBK's ba1 BCA reflects its (1) low levels of well-provisioned problem loans but also high credit risks, as indicated by high credit concentrations and significant provisioning charges in recent years; and (2) strong core profitability and efficiency but low bottom-line earnings. The BCA also reflects the bank's deposit-based funding structure (despite some funding concentrations), comfortable liquidity buffers and solid capitalisation, with a Common Equity Tier 1 (CET1) to risk-weighted assets (RWA) ratio of 17.2% as of the end of June 2017. Even though we expect only modest problem loan formation in Kuwait, owing to pressure from low oil prices, political stress or a further sustained decline in oil prices present a downside risk.
Rating effect on the status of the company	The report reflects, as shown below, the strengths of the bank and the negative aspects of the financial situation, also addresses the changes in oil prices as the main engine of the local economy and that could put pressure on the bank's domestic asset quality.
Outlook	Stable. The stable outlook on CBK's ratings reflects the balance between the bank's strong revenue-generating capacity, and solid capital and provisioning buffers against high credit concentrations and recent high provisioning requirements.
Translation of the press release or executive summary	**Credit Strengths** – Strong core profitability. – Solid capitalisation buffers to absorb unexpected credit losses. – Stable deposit base and significant liquidity buffers.

- Very high probability of systemic support underpins the bank's deposit ratings.

Credit Challenges

- Low problem loans, but high provisioning requirements and credit concentrations point to elevated credit risks.
- Bottom-line earnings negatively affected by high provisions.
- Systemic funding concentrations, mostly to government-related entities.

Detailed Rating Considerations

STRONG CORE PROFITABILITY, BUT BOTTOM-LINE EARNINGS AFFECTED BY HIGH PROVISIONS

CBK exhibited exceptional operating efficiency with a cost to income ratio of 28% in the first six months of 2017 (2016: 28%), the best among its domestic rated peers, while the bank's pre-provision income at 2.6% of average total assets is above the system average (of around 2% for 2016). However, bottom-line profitability remained low, constrained by high provisions. The bank booked provisions of KWD51 million in H1 2017 against pre-provision income of KWD53 million, compared with provisions of KWD39 million in H1 2016, mainly as a result of a court verdict in February. These high provisions led to a net income to tangible assets ratio of 0.1% for H1 2017, below the Kuwaiti banking system average. We expect CBK's bottom-line profitability to remain under pressure in 2017, due to the high provisioning charges, although pre-provision income will be supported by improving margins as benchmark interest rates increase. Overall, we expect CBK to build the necessary provisions through revenues and without any impact on its capital base and for bottom-line profitability to recover in 2018.

SOLID CAPITALISATION BUFFERS TO ABSORB UNEXPECTED CREDIT LOSSES

CBK reported a Basel III Tier 1 capital adequacy ratio (made up almost exclusively by CET1 capital) of 17.2% as of June 2017, well above the median of similarly rated global peers and the current regulatory requirement. The Central Bank of Kuwait has fully implemented Basel III capital requirements, and CBK has to maintain CET1, Tier 1 and total capital ratios of 10%, 11.5% and 13.5%, respectively, as of December 2017. These requirements include a 2.5% capital conservation buffer, but also a domestic systemically important bank (DSIB) surcharge of 0.5% specific to CBK.

CBK's equity to assets ratio was also strong at 14.3% as of June 2017. The bank also reported a Basel III leverage ratio of 11.5% as of the end of June 2017, which compares well with its global peers.

We expect CBK's capitalisation ratios to remain close to current levels, reflecting our expectation of contained growth in RWA. The bank's Tier 1 ratio will remain above 14%, based on our stress scenario assumptions.