

Date: 29 April 2020

Sirs, Boursa Kuwait

Greetings,

According to chapter four (Disclosure of Material Information) of rulebook ten (Disclosure and Transparency) of CMA Executive Bylaws of Law No. 7/2010 and its amendments.

Kindly find attached the Annex No. (9) Disclosure of Credit Rating Form covering the updated credit rating report issued by Moody's about Commercial Bank of Kuwait.

Please note that there is no change from the previous credit ratings. Please also be advised that according to the updated report all Bank's ratings were confirmed, with a stable outlook.

Best Regards,



Tamim Khaled Al Meaan
GM. Compliance and Corporate Governance

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	29 April 2020
Name of Listed Company	Commercial Bank of Kuwait (K.P.S.C)
Entity who issues the rating	Moody's
Rating category	<ul style="list-style-type: none"> - Long-term Counterparty Risk Ratings: A2 - Short-term Counterparty Risk Ratings: P-1 - Long-term Bank Deposits: A3 - Short-term Bank Deposits: P-2 - Baseline Credit Assessment: ba1 - Adjusted Baseline Credit Assessment: ba1 - Long-term Counterparty Risk Assessment: A2(cr) - Short-term Counterparty Risk Assessment: P-1(cr)
Rating implications	<p>"Moody's" use principle methodology when rating banks, the same can be found on the agency website.</p> <p><u>Counterparty Risk Ratings:</u> CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored.</p> <ul style="list-style-type: none"> - Long-term Counterparty Risk Ratings, affirmed A2: Obligations rated A are judged to be upper-medium grade and are subject to low credit risk. The modifier 2 indicates a mid-range ranking. - Short-term Counterparty Risk Ratings, affirmed P-1: Issuers or supporting institutions rated P-1 have a superior ability to repay short-term debt obligations. <p><u>Bank Deposit Ratings:</u> BDRs are opinions of a bank's ability to repay punctually its foreign and/or domestic currency deposit obligations and also reflect the expected financial loss of the default.</p> <ul style="list-style-type: none"> - Long-term Bank Deposits, affirmed A3 stable: Obligations rated A are judged to be upper-medium grade and are subject to low credit risk. The modifier 3 indicates a ranking in the lower end of that generic rating category. - Short-term Bank Deposits, affirmed P-2: Issuers or supporting institutions rated Prime-2 has a strong ability to repay short-term debt obligations. <p><u>Baseline Credit Assessment:</u> BCAs are opinions of issuers' standalone intrinsic strength, absent any extraordinary support from an affiliate or a government.</p> <ul style="list-style-type: none"> - Baseline Credit Assessment, Affirmed ba1: Issuers assessed ba are judged to have speculative intrinsic, or standalone, financial strength, and are subject to substantial credit risk absent any

	<p>possibility of extraordinary support from an affiliate or a government. The modifier 1 indicates that the obligation ranks in the higher end of its generic assessment category.</p> <p>Counterparty Risk Assessment: CRAs are opinions on the likelihood of a default by an issuer on certain senior operating obligations and other contractual commitments.</p> <ul style="list-style-type: none"> - Long-term Counterparty Risk Assessment, affirmed A2(cr): Long-term counterparty risk Assessment reference obligations with an original maturity of one year or more. Issuers assessed A (cr) are judged to be upper-medium grade and are subject to low risk of defaulting on certain senior operating obligations and other contractual commitments. The modifier 2 indicates a mid-range ranking - Short-term Counterparty Risk Assessment, affirmed P-1(cr): Short-term counterparty risk assessments reference obligations with an original maturity of thirteen months or less. Issuers assessed P-1(cr) have a superior ability to honor short-term operating obligations.
<p>Rating effect on the status of the company</p>	<p>The report reflects the strengths and weakness for the bank and Moody's expectations in this regard, also addresses the political stress, any exacerbated negative implications from the coronavirus outbreak and sustained low oil prices, as the main engine of the local economy that could be considered the main downside risks to these expectations.</p>
<p>Outlook</p>	<p>Stable. The stable outlook on CBKs ratings reflects the balance between the Banks strong revenue - generating capacity and solid capital and provisioning buffers against high credit concentration and recent high provisioning charges and write-offs.</p>
<p>Translation of the press release or executive summary</p>	<p>CBK A3 long-term deposit rating incorporates four notches of uplift from the bank's ba1 standalone Baseline Credit Assessment (BCA), reflecting our view of a very high probability of support from the Government of Kuwait (Aa2 RUR) in case of need. The bank's short-term deposit rating is Prime-2, Counterparty Risk Ratings (CRRs) are A2/Prime-1 and Counterparty Risk (CR) Assessments are A2(cr)/Prime-1(cr).</p> <p>CBK's ba1 BCA reflects its (1) high credit risks, characterized by high credit concentrations and large provisioning charges and write-offs; and (2) low bottom-line earnings. The BCA also reflects the bank's (1) deposit-based funding structure, although funding concentrations remain an issue; (2) comfortable liquidity buffers; and (3) solid capitalization, with Common Equity Tier 1 (CET1) capital/risk-weighted assets (RWA) of 16.9% as of December 2019. Political stress, any exacerbated negative implications from the coronavirus outbreak and sustained low oil prices remain the main downside risks.</p> <p>Credit strengths</p> <ul style="list-style-type: none"> - Solid capitalisation and high provisions to absorb credit losses. - Strong core profitability, helped by good cost efficiency. - Stable deposit base and significant liquidity buffers. - Very high probability of government support, which underpins the bank's deposit ratings.

Credit challenges

- Credit costs and write-offs have been high in recent years, and credit concentrations drive elevated asset risks.
- Bottom-line earnings are constrained by high provisions.
- There are systemic funding concentrations, mostly to government-related entities.

Strong core profitability, but bottom-line earnings are still constrained by provisions

CBK continues to record strong operating efficiency, with a cost-to-income ratio of around 32% for the year-end 2019 (2018: 30%), after operating expenses increased by 12% for the year-end 2019, which was one of the best among its domestic peers. The bank's preprovision income/average total assets was 2.3% for the same period, above the system average of around 2.1%, and provides a first line of defense against potential losses.

However, CBK's bottom-line profitability for year-end 2019 deteriorated, with net income/tangible assets at nil, down from 1.4% in 2018, mainly because of an increase in impairment and other provisions. At these levels, CBK's profitability is below the 0.8% average for Kuwaiti conventional banks for the same period. We expect the bank's bottom-line profitability to continue to be constrained by relatively high provisions, which will closely track problem loan formation, given the bank's policy to write-off all nonperforming loans. We expect CBK's bottom-line profitability to be lower as provisions may increase under this policy and recoveries could be slower.

Solid capitalization buffers to absorb unexpected credit losses

CBK reported a Basel III Tier 1 capital adequacy ratio (made up almost exclusively by CET1 capital) of 16.9% as of December 2019, well above the median for its global peers that we rate similarly and the current regulatory requirement. The Central Bank of Kuwait has fully implemented Basel III capital requirements, and CBK has had to maintain CET1, Tier 1 and total capital ratios of 10.0%, 11.5% and 13.5%, respectively, since December 2016. These requirements include a 2.5% capital conservation buffer, as well as a domestic systemically important bank surcharge of 0.5% specific to CBK.

The bank also reported a Basel III leverage ratio of 11% as of the end of December 2019, which compares well with that of its global peers.

Stable deposit base and significant liquidity buffers, but concentrations remain an issue

Deposits fund most of CBK's assets. Customer deposits made up 59% of its non-equity funding, and deposits from non-bank financial institutions (including Kuwait's Public Institution for Social Security) made up a further 17% as of December 2019. We also expect CBK's market funding reliance to remain low over the next 12-18 months because we expect loan growth to remain at the same level as deposit growth. The bank reported a net stable funding ratio of 114% as of December 2019.