

Date: 31 October 2019
REF: CCG/109/2019

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 & 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	31 October 2019
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 Stable - Short-term Bank Deposits: P-2 - Long-term Counterparty Risk Assessment: A2(cr) - Short-term Counterparty Risk Assessment: P-1(cr) - Baseline Credit Assessment: ba1 - Adjusted Baseline Credit Assessment: ba1
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>Counterparty Risk Assessment:</u> 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.

	<p>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</p> <ul style="list-style-type: none"> - 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><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 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.
Rating effect on the status of the company	<p>The report reflects the strengths and weakness for the bank and Moody's expectations in this regard, also addresses the changes in oil prices, as the main engine of the local economy that could be considered the main downside risks to these expectations.</p>
Outlook	<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. Moody's also expects benign operating conditions in Kuwait will support the bank's performance over the next 12-18 months. Geopolitical and domestic political stress or a renewed weakness in oil prices are the main downside risks to these expectations.</p>
Translation of the press release or executive summary	<p>CBK A3 long-term deposit rating 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 Government of Kuwait (Aa2 stable) in case of need. The bank's short-term deposit rating is Prime-2, the Counterparty Risk Ratings (CRRs) are A2/Prime-1 and its Counterparty Risk (CR) Assessments are A2 (cr)/Prime-1(cr).</p> <p>CBK's ba1 BCA reflects its (1) high credit risks, as indicated by its credit concentrations, and large provisioning charges and write-offs in recent years; and (2) strong core profitability and efficiency, but 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 capitalisation, with Common Equity Tier 1 capital (CET1)/risk-weighted assets (RWA) of 16.9% as of June 2019. We expect benign operating conditions in Kuwait to support the bank's performance over the next 12-18 months. Geopolitical and domestic political stress and any renewed weakness in oil prices remain the main downside risks to our expectations.</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 31% for the first six months of 2019 (2018:30%), after operating expenses increased by 9% for the first six months of 2019, which was one of the best among its domestic peers. The bank's pre-provision income/average total assets was 2.6% for the same period, above the system average of around 2.0%, and provides a first line of defense against potential losses.

CBK's bottom-line profitability for the first six months of 2019 deteriorated, with net income/tangible assets of 0.4%, down from 1.4% in 2018. At these levels, CBK's profitability is below the 1.0% 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 new policy to write-off all nonperforming loans. We expect CBK's bottom-line profitability to be lower as provisions may increase under the new 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 June 2019, well above the median of 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.

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

Deposits fund most of CBK's assets. Customer deposits made up 64% of its non-equity funding, and deposits from non-bank financial institutions (including Kuwait's Public Institution for Social Security) made up a further 24% as of December 2018. 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 107% as of June 2019.