

TRANSLATION

Date: 10 June 2018
REF: CCG/67/2018

TO: Mr. Khaled Abdulrazaq Al-Khaled
CEO
Boursa Kuwait Securities Company


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 rating as issued in December 2017. Please also be advised that according to the updated report all Bank's ratings were confirmed with a stable outlook.

Best Regards,


Yaqoub Habib Al-Ebrahim
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.

البنك التجاري الكويتي
Commercial Bank of Kuwait

Annex (9)

Disclosure of Credit Rating Form

Date	10 June 2018
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"> - Bank Deposits: A3/P-2 - Baseline Credit Assessment: ba1 - Adjusted Baseline Credit Assessment: ba1 - Counterparty Risk Assessment: A2(cr)/P-1(cr)
Rating implications	<p>"Moody" applies special methodology when evaluating banks, the same can be found on the Agency website.</p> <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 (Aa2Stable) in case of need. The bank's short-term deposit rating is Prime-2. Furthermore, we have assigned a Counterparty Risk (CR) Assessment of A2 (cr)/Prime-1(cr) to CBK.</p> <p>CBK's ba1 BCA reflects its (1) low levels of well-provisioned problem loans, but high credit risks, as indicated by its high credit concentrations and significant provisioning charges in recent years; and (2) strong core profitability and efficiency, but low bottom-line earnings.</p> <p>The BCA also reflects the bank's deposit-based funding structure (despite some funding concentrations), comfortable liquidity buffers and solid capitalization, with Common Equity Tier 1 (CET1)/risk-weighted assets (RWA) of 17.4% as of the December 2017. We expect benign operating conditions in Kuwait will supports the bank's performance over the next 12-18 months; political stress and any renewed weakness in oil prices remain the main downside risks to our expectations.</p>
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	<p>Stable</p> <p>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 the recent high provisioning requirements</p>
Translation of the press release or executive summary	<p>Credit Strengths</p> <ul style="list-style-type: none"> - Strong core profitability, helped by cost efficiency - Solid capitalization buffers and high levels of provisions to absorb potential credit losses - Stable deposit base and significant liquidity buffers

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

Credit Challenges

- Credit losses have been high in recent years, and credit concentrations drive elevated asset risks
- Bottom-line earnings constrained by high provisions
- Systemic funding concentrations, mostly to government-related entities

Profile

As of 31 March 2018, CBK had total assets of KWD4.3 billion (\$14.3 billion). CBK was the sixth-largest bank in Kuwait in terms of assets as of 31 December 2016, with a 6% share. CBK provides its retail and corporate customers with a range of banking and financial services.

Detailed Credit Considerations

Problem loans remain low, but high credit losses in recent years and credit concentrations drive elevated asset risks

CBK has drastically cut its problem loans/gross loans ratio to just 0.5% as of year-end 2017 from 15.3% as of year-end 2010. Furthermore; the bank has built up substantial provisions against potential losses. Total provisions for impairment, including substantial general provisions, were equivalent to 5.8% of gross loans. Nevertheless, credit costs averaged a high 1.5% in the last five years, while provisioning expenses consumed around 60% of the bank's pre-provision income for the first quarter of 2018, indicating elevated risks in the bank's portfolio.

Over the next 12-18 months, we expect CBK's asset quality to be supported by a relatively benign domestic operating environment. We forecast non-oil GDP growth of 3.5% in 2018 and 4% in 2019 (3.5% in 2017E) driven by growing government spending, which will support operating conditions for banks.

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

CBK continues to record exceptional operating efficiency, with a cost-to-income ratio of 29% for the first three months of 2018 (2017:31%), which is one of the best among its domestic peers, while the bank's pre-provision income/average total assets ratio of 2.5% was above the system average of around 2.1%. However, the bank's bottom-line profitability remained constrained by relatively high provisions. Net income/tangible assets was 0.9% for the first three months of 2018 (2017: 1.3%), below the 1.2% average for Kuwaiti conventional banks for the same period.

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 17.4% as of December 2017, well above the median of its 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 10.0%, 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 CBK1. The bank also reported a Basel III leverage ratio of 11.5% as of the end of December 2017, which compares well with those of its global peers.

	<p>We expect CBK's capital metrics to remain close to their current levels, reflecting our expectation of contained growth in the bank's RWA. We also expect large existing provisions under the current regulatory regime to support the bank's potential transition to an expected loss framework under IFRS 9 by the end of the year, without any significant negative impact on capital.</p>
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