

Kuwait, 15 July 2020

Boursa Kuwait
State of Kuwait

Dear Sirs,

This is made pursuant to Module Ten, Chapter Four of the Resolution No. (72) of 2015, concerning the amended Executive Regulations of Law No. 7/2010 on the "Establishment of Capital Markets Authority and the regulation of Securities Activity", pertaining to the "Disclosure of Material Information and the Mechanism of Notification".

Please find attached the duly filled Credit Rating Disclosure Form containing Capital Intelligence's affirmation of Gulf Bank's Subordinated Bond Rating at "BBB+".

Best regards



Jihad Khodr
Assistant General Manager
Head of Compliance & Disclosure



Credit Rating Disclosure Form

Date	15 July 2020
Bank's Name	GULF BANK K.S.C.P
Rating Agency	Capital Intelligence Ratings
Rating Category	<ul style="list-style-type: none"> • KD 100 million Tier 2 Subordinated Bond • Affirmed of Bond Rating at "BBB+"
Rationale for Rating Change/ Key Drivers	<p><u>Supporting Drivers</u></p> <ul style="list-style-type: none"> • The Bond qualifies as Tier 2 capital; Issuer's capital ratios remained solid. • Issuer is the fourth largest bank in Kuwait with well-established business franchise and good market share. • Issuer has solid capital ratios with high Tier 1 and good loan asset quality metrics. • Issuer exhibits comfortable liquidity metrics, supported by its large customer deposit base and sizeable liquid assets. • Notwithstanding a marginal slippage, the issuer has good operating profitability; widening net interest margin and sound operating efficiency. <p><u>Constrains</u></p> <ul style="list-style-type: none"> • Contractual subordination of instrument. • Issuer operates in a challenging operating environment – impact of Covid-19 and declining oil prices on the slow economic growth and the soft real estate market. • Small size and competitive domestic banking market; high customer concentration in both loans and customer deposits, in common with peers. • Lack of disclosure of stage 2 loans impedes detailed assessment of loan asset quality.
Impact of Rating on the Bank	<ul style="list-style-type: none"> • Affirmed the rating of Gulf Bank's (GB) KWD100mn Basel III-compliant Tier 2 Subordinated Bonds at 'BBB+' • Outlook Rating Action: Affirmed Outlook at "Stable" • No financial impact on the Bank
Outlook	<ul style="list-style-type: none"> • Outlook Rating Action: Affirmed Outlook at "Stable"
Translation of the Press Release or the	Capital Intelligence Ratings (CI Ratings or CI) has affirmed the rating of Gulf Bank's (GB) KWD100mn Basel III-compliant Tier 2 Subordinated Bonds at 'BBB+'. The Outlook for the rating is Stable.

**Executive
Summary**

The rating reflects: (i) GB's BSR; (ii) the bond's contractual subordination to senior unsecured obligations; and (iii) CI's view that the bond's loss absorption mechanism is unlikely to be triggered before the Bank is non-viable on a standalone basis.

GB's BSR is driven by its well-established business franchise especially in retail banking, its good loan asset quality, solid capital position and comfortable liquidity metrics. The rating also reflects GB's size as the fourth largest bank in Kuwait with a large distribution network and a good market share in both loans and deposits.

The main constraints for the Bank's BSR, in common with many of its peers, are the lack of disclosure in areas such as stage 2 loans and the customer concentration in both the loan book and customer deposit base – an effect of the small size of the Kuwaiti market. The concentration in the loan book is however more moderate and has declined further in 2019 while the higher concentration in the deposit base is partly mitigated by the stickiness of these deposits. The main challenge is the worsening of the operating environment due to Covid-19 and the recent sharp drop in oil prices, and the consequent impact on the Bank's credit profile.

The principal strength of GB remains with its well-established franchise especially in retail, which is underpinned by a large distribution network. The Bank's universal banking business model and effective strategies have helped to maintain market share and provided a good level of earnings. Notwithstanding a marginal weakening, loan asset quality metrics have remained good and above peer group averages in 2019. The Bank's robust LLR coverage and solid capital position provide good buffers in the current environment. Moreover, notwithstanding a pressure on earnings, GB still has an adequate level of operating profit to absorb additional provisioning if required.

The Bank remained solidly capitalised in 2019, although capital ratios continue to lag the even stronger peer group averages. The quality of capital is good as reflected by a high CET-1 component. Basel III and balance sheet leverage ratios also strengthened to good levels. With slower loan growth projection, CI anticipates that the capital ratios for GB to remain fairly solid.

The Outlook for the Bond rating is Stable which means this is likely to remain unchanged over the next 12 months in line with the same expectation for the Bank's BSR, which is the starting point for the bond rating. While some weakening of loan asset quality is expected given the impending downturn, CI anticipates the Bank's key financial metrics relating to loan asset quality, liquidity, capital and profitability to remain reasonably good.