

| Banks Ratings Navigator | | |
|--|--|------------|
| Navigator date: | 09 Dec 2016 | |
| Last rating action: | 02 Nov 2016 | |
| Sector Details: | | |
| Bank sector: | Trading & Investment | |
| Region: | EM Middle East and Africa | |
| Country: | Bahrain | |
| Country IDR: | BB+ Stable | |
| Last action: | 28 Jun 16 Downgrade | |
| Country ceiling: | BBB+ | |
| Macro prudential indicator: | 1 | |
| Bank systemic indicator: | bbb | |
| Bank Rating History | | |
| Viability Rating (VR) | | |
| 02 Nov 16 | bb | Affirmed |
| 05 Nov 15 | bb | Affirmed |
| 10 Nov 14 | bb | Affirmed |
| Issuer Default Rating (IDR) | | |
| 02 Nov 16 | BB Positive | Affirmed |
| 05 Nov 15 | BB Stable | Affirmed |
| 10 Nov 14 | BB Stable | Affirmed |
| Support Rating Floor (SRF) | | |
| 02 Nov 16 | NF | Affirmed |
| 05 Nov 15 | NF | Affirmed |
| 10 Nov 14 | NF | Affirmed |
| Bar Chart Legend: | | |
| Vertical bars = VR range of Rating Factor | | |
| Bar Colors = Influence on final VR | | |
| ■ | Higher Influence | |
| ■ | Moderate Influence | |
| ■ | Lower Influence | |
| Bar Arrows = Rating Factor Outlook | | |
| ↑ | Positive | ↓ Negative |
| ↕ | Evolving | □ Stable |
| Peer Ratings bars = Count of banks | | |
| 1 | EM Middle East and Africa Trading & Investment | |
| 1 | Bahrain Trading & Investment | |
| Relevant Criteria & References | | |
| Global Bank Rating Criteria (Jul 2016) | | |
| Global Non-Bank Rating Criteria (Jul 2016) | | |
| Macro-Prudential Risk Monitor (May 2016) | | |
| Analysts | | |
| Michael Dodge (+1 212 908-0379) | | |
| David Pierce (+44 203 530 1014) | | |

| | Peer Ratings | Operating Environment | Company Profile | Management & Strategy | Risk Appetite | Asset Quality | Earnings & Profitability | Capitalisation & Leverage | Funding & Liquidity | Viability Rating | Support Rating Floor | Issuer Default Rating |
|------|--------------|-----------------------|-----------------|-----------------------|---------------|---------------|--------------------------|---------------------------|---------------------|------------------|----------------------|-----------------------|
| aaa | | | | | | | | | | aaa | AAA | AAA |
| aa+ | | | | | | | | | | aa+ | AA+ | AA+ |
| aa | | | | | | | | | | aa | AA | AA |
| aa- | | | | | | | | | | aa- | AA- | AA- |
| a+ | | | | | | | | | | a+ | A+ | A+ |
| a | | | | | | | | | | a | A | A |
| a- | | | | | | | | | | a- | A- | A- |
| bbb+ | | | | | | | | | | bbb+ | BBB+ | BBB+ |
| bbb | | | | | | | | | | bbb | BBB | BBB |
| bbb- | | | | | | | | | | bbb- | BBB- | BBB- |
| bb+ | | | ↑ | | | | | | | bb+ | BB+ | BB+ |
| bb | ■ | | ↑ | | | | | | | bb | BB | BB Positive |
| bb- | | | ↑ | | | | | | | bb- | BB- | BB- |
| b+ | | | | | | | | | | b+ | B+ | B+ |
| b | | | | | | | | | | b | B | B |
| b- | | | | | | | | | | b- | B- | B- |
| ccc | | | | | | | | | | ccc | CCC | CCC |
| cc | | | | | | | | | | cc | CC | CC |
| c | | | | | | | | | | c | C | C |
| f | | | | | | | | | | f | NF | D or RD |

| Support Rating Floor | Value | | |
|---|-----------|---------|----------|
| Typical D-SIB SRF for sovereign's rating level (assuming high propensity) | BB+ or BB | | |
| Actual country D-SIB SRF | BB+ | | |
| Support Rating Floor: | NF | | |
| Support Factors | Positive | Neutral | Negative |
| Sovereign ability to support system | | | |
| Size of banking system relative to economy | ✓ | | |
| Size of potential problem | | ✓ | |
| Structure of banking system | | ✓ | |
| Liability structure of banking system | ✓ | | |
| Sovereign financial flexibility (for rating level) | | ✓ | |
| Sovereign propensity to support system | | | |
| Resolution legislation with senior debt bail-in | | ✓ | |
| Track record of banking sector support | | ✓ | |
| Government statements of support | | ✓ | |
| Sovereign propensity to support bank | | | |
| Systemic importance | | | ✓ |
| Liability structure of bank | | ✓ | |
| Ownership | ✓ | | |
| Specifics of bank failure | | ✓ | |
| Policy banks | | | |
| Policy role | | | |
| Funding guarantees and legal status | | | |
| Government ownership | | | |

| Drivers & Sensitivities | |
|---|---|
| Strong Gulf Client Base | The ratings reflect the company's strong client franchise and high degree of brand name recognition in the Gulf, supported by its track record and long-term relationships in the region. |
| New Institutional Owners Positive | The Positive Outlook reflects franchise and earnings benefits that may accrue to Investcorp from recent strategic equity stake sales, pending regulatory approval, to Mubadala (20%) and another Gulf-based institution (9.9%). The transactions may provide a more stable equity base. |
| 3i Debt Management Acquisition Diversifies AUM | The acquisition is expected to be accretive for Investcorp, providing \$12bn in diversifying AUM, more stable fee income and will result in no additional debt incurrence, which Fitch Ratings views positively. |
| Solid Funding and Liquidity Profile | Long-dated financing for its co-investment portfolio reduces the refinancing and liquidity risks inherent in Investcorp's business model of originating and syndicating alternative investments. |
| Robust Capital Adequacy | Investcorp maintains strong capital levels that are well in excess of the Central Bank of Bahrain's minimum requirements. |
| Inherent Earnings Volatility | Investcorp is exposed to potential earnings volatility and placement risk given that transactions are originated and placed with investors on a deal-by-deal basis, as opposed to raising dedicated funds with an investment/re-investment period. |
| Significant Balance Sheet Exposure to Co-Investments | Balance sheet exposure to co-investments remains material and is expected to increase as a result of the 3i acquisition, which presents increased potential risk of investment losses and capital erosion. |
| Execution on Objectives a Positive Driver | A one-notch upgrade could be achieved if Investcorp leverages strategic partnerships to grow AUM, realizes accretive benefits from the 3i acquisition, navigates a challenging hedge fund environment, and demonstrates a limited impact from continued low oil prices on fundraising. |

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