

Oct.21st, 2014

Al Qabas Interview with KIPCO's Vice Chairman, Mr Faisal Al Ayyar

Part 1 of 2

- **To begin with, what is your opinion on the government's decision to postpone electricity, water and fuel price hikes, having indicated earlier that they were planning to reduce these subsidies?**

Unfortunately, in Kuwait, we have a Cabinet that is led on many different fronts. Recent statements from the Minister of Finance, Anas Al Saleh proposed rationalizing subsidies without adversely affecting middle class citizens who account for the majority of the Kuwaiti citizens. A few days later, the Oil Minister, Dr Ali Al Omair, announced that eliminating subsidies from fuel will not happen now and the proposal has been postponed indefinitely.

Decreasing subsidies should have been initiated by the government two years ago, to coincide with public sector salary increases. Around the world, rationalizing subsidies is directly linked to salary hikes, as we saw in Jordan and Egypt. However, in Kuwait, we are always 'different' and don't apply common sense. The government increased the salaries of those who needed it and those who didn't, without decreasing overall subsidies. These salary increases are now part of the budgets and financial plans of families and individuals, and people are demanding more!

- **In that light, is it your opinion that increasing electricity, water and fuel is a necessity?**

Of course it is a necessity. I support more far reaching measures towards proper reform. When we speak of electricity, so much is being wasted in Kuwait. I am not against the middle class, I am for free electricity but with set consumption limits per person. Accordingly, price hikes should affect those whose bills show excessive amounts of electricity wastage to ultimately force them to rationalize their overall consumption.

As for gasoline, the wastage of it is clear. There are more cars per Kuwaiti household than the number of people who live in these houses. For example, when a family that lives in the same house goes out to dine at a restaurant, everyone goes with their own car and then meet on a single table!

Government measures to minimize subsidies in electricity, water and fuel is one of three key priorities I believe needs to be addressed to regulate and restructure Kuwait's economy. The others are resolving the wastage problem and diversifying sources of income. Unfortunately, they are not being addressed.

The government, should it want to apply proper economic reforms, must look into and fix the financial wastage problem across government institutions. This includes the abundance of financial benefits for senior leaders in ministries and state institutions, extreme financial compensations for ministerial committees, unnecessary trips that do not have real return. Such waste costs the country tens of millions of Kuwaiti Dinars annually, which should be saved.

As for diversifying sources of income, unfortunately, there isn't any real government-led measure on that front, to a point where the private sector in Kuwait is 'sidelined' and is not given its real chance to perform the economic reform required.

- **As traders and big corporates, you are accused of refusing to have taxes on your profits. Logically, there should be taxes on profits that companies generate, in line with procedures taken to rationalize subsidies, as one big economic reform package?**

I support taxes on companies, but there must be something in return that the State has to offer the business community. As companies, taxes increase gradually through the contribution made to Kuwait Foundation for the Advancement of Science along with the sums paid as part of the program for supporting the national workforce. We must point out to the 'failed' national labor law - for those working in the private sector - which has and still continues to contribute in wasting hundreds of millions from the State's budget, without any benefit from it. As a company, we have Kuwaiti employees who earn thousands, so why does the government support them? Also, there are women who stay at home and their salaries are paid like any other employee, due to the failure of this law.

- **We currently live in a time that is witnessing a major drop in oil prices. How do you view the impact on Kuwait?**

I think there are boundaries and limits to the significant drop in oil prices we are currently witnessing, maybe across the prices of other alternatives such as shale oil. I don't see an immediate impact in the current time even if the barrel dropped to lower than US\$ 75. Kuwait has other sources that are a result of its investments outside, which amount to around US\$ 400 billion and are not part of the State budget. Accordingly, the profits that

come out of these investments will cover any deficit that might happen. Kuwait's overall position is better than a lot of other countries.

The Parliament

- **How would you rate the performance of the current parliament?**

The current parliament is 'moving', and the majority of its members are young, which provides it with the ability to move things and comprehend the continuous developments of the realities we live in. In my personal opinion, one of the best things the parliament did is passing the bill allowing citizens to file complaints directly to the Constitutional Court. Ever since the Constitution was passed down during the 1960s, this particular constitutional right was not applied in reality. Another win for this parliament is its continuous interest in housing issues and making it a priority in its agenda. Members of the parliament have tabled certain bills addressing this issue and have applied considerable amounts of pressure on the government to resolve the problem.

The only thing I have against the parliament is when its members, like their predecessors, continue to demand 'popular' financial compensations for the public without having to resort to any objective basis.

- **So, do you see that the parliament's current performance is better than the ones before which constituted a large number of opposition, if that's the right way to describe them?**

Definitely, it is better. There aren't any loud voices back and forth like in the past. The past opposition continued to fuel their arguments with cases of corruption, but nothing was put forward, and no real and tangible case was been proven – just statements and reoccurring accusations. Even with laws and bills that pertain to the economy, the majority of these couldn't have been practically applied, such as the BOT, privatization and many more.

- **What about the government. Is it fulfilling its role from an economic standpoint?**

Unfortunately, the current government does not have a clear agenda in terms of its objectives towards the economy. Its agenda is 'mixed up', and this is not something new. We've been seeing this in all governments since the 1960s. Depending on oil as the only source of income is still the case, without looking into prioritizing the diversification of income. We call upon the government to put a list of laws and projects for economic reform

that can pull major winds of change. The objective here is to benefit from the strong position of the parliament.

Capital Markets Authority (CMA)

- **The recent change in the Board of Commissioners of Kuwait Capital Markets Authority; do you see that it is an advantage to the CMA, the KSE, and overall economic development of Kuwait?**

Firstly, we wish the former president of the Board of Commissioners of the CMA the best of luck in his future endeavours following his retirement. It is still too early to judge the new Board of Commissioners with its new structure, but we see that the current president of the Board Dr Nayef Al Hajraf is young and has great capabilities that look promising. We look forward to many accomplishments, in terms of many strong and positive initiatives. He listens well, and is reachable whenever you need him.

Al Ayyar continued jokingly, "I am not praising Al Hajraf because he is from Jahra like me..."

- **But, is Al Hajraf specialized in this particular matter?**

It's not a must to have an academic specialization. It is important however to understand and apply what is right for the economy, and what achieves investors' objectives.

- **Do you support amending the CMA law?**

Yes, but we do not wish for the law to be amended just to serve minor objectives such as changing certain articles to apply it only on certain individuals or a particular authority. What we need is a proper change that facilitates work and one that serves the rights of both investors and corporates alike.

- **What don't you like in the current CMA law?**

What we don't like about the law, in terms of KIPCO, is the pre-approval needed prior to any bond issuance transaction, funds, and many more. For example, we had to wait for three months to obtain the CMA's approval to issue bonds. The bond market is dynamic and volatile. Unfortunately, the CMA does not appreciate the importance of time. The number of approvals required before any transaction impacts the market negatively. In any country around the world, we don't need pre-approvals of that magnitude to issue bonds.

In my opinion, post-supervision should take place after corporate bond issuance transactions, and not before it. Heads of businesses should not be treated as if they don't know how to run and manage their own interests, not knowing how to operate in different economic environments and that the authorities are the only ones who understand the principles of economy.

- **Do you see any obstacles between the CMA cooperating with companies and investors?**

Unfortunately, the CMA suffers from incredible bureaucracy and unexplained long and routine paperwork for anything it has to deal with, where it also does not have enough manpower to cover for and complete companies' interests at an ideal time. And here I question, what would the CMA do if the private sector expanded and grew from its current position?

The CMA looks into the smallest things, to a point where they can easily stop companies' transactions on very minor things and request clarity. This is also besides the fact that there are a number of investment instruments that companies use for financing purposes, are not fully understood by employees working within the CMA.

- **What about those who try undermine and minimize the CMA's role?**

Without a doubt, we are against those who try to undertake such measures. If in the event that the CMA does not have the proper means to go against those who violate the rules, the market's situation will worsen to the days when there wasn't one, and will become a 'nice to have' authority. We are against unexplained procedures that don't make sense, but those who violate the law must be punished. This applies to every State institution as well.

- **There are fears that CMA's commitment will not be as it should be in terms of applying the law, in anticipation of new reforms that will take place.**

The CMA law provides its commissioners with a wide range of authority, and the ability to simplify matters. Accordingly, the Board of Commissioners of the CMA is able to take decisions and actions that allow it to move things around without any obstructions and of course without violating the current law, until a new one has passed.

Housing and traffic issues

- **Is there any quick solution that Mr Faisal Al Ayyar proposes to resolve the housing issue?**

There aren't any magical solutions. The problem can be solved within a framework of three main points: Providing land, giving a chance to the private sector to play a constructive role, and providing the right financing means for citizens to build and construct their homes. We heard about a change in the housing law, one which allows the Public Authority for Housing Welfare to involve the private sector in the process. We hope that such measures move in the right way to solve the issue.

- **Are you with the idea that a Kuwaiti must only live in a villa, despite the burden something like this might have on the existing electricity and water networks?**

It is not a must that every citizen must have a villa, but if the argument is about electricity and water, the increased efforts to collect overdue bills has helped lower overall electricity consumption recently. As mentioned earlier, imagine if subsidies were eliminated from people who continue to consume wastefully, this will undoubtedly have a major impact on the total consumption rate. Why doesn't the government benefit from solar energy in providing electricity to homes around Kuwait? If countries such as Kuwait, such as Cyprus and Lebanon can install solar heating, why can't we follow Abu Dhabi's lead and provide electricity and air conditioning from solar power?

One solution to resolve the housing issue is allowing children to own a floor or more in their father's house, making them eligible for taking a housing loan. Many Kuwaiti citizens prefer to live in the family house, provided that they have their own floors. This will allow many to take loans to construct and built their floors in their family houses, and I believe this measure will solve between 20%-25% of the housing issue.

- **What about the continuous traffic jams, what do you think is the solution to that?**

The root causes of the traffic problem we face in Kuwait is that anyone can drive a car around the country; those who earn KD 100 per month or even KD 1 million. I think the solution may vary between applying more tariffs on registering cars and renewals, in line of course with encouraging public transportation through big projects such as the metro.

Oct. 22nd, 2014

Al Qabas Interview with KIPCO's Vice Chairman, Mr Faisal Al Ayyar

Part 2 of 2

- **What sets KIPCO Group apart from other companies?**

We seek to do the right thing, to act ethically in whatever we do. The group is large and has a wide range of businesses, there have been no scandals and no court order has been placed on any of our companies.

We have well trained, well motivated staff. We continue to employ top caliber employees who exceed expectations. Our staff have a sense of loyalty and a sense of honor which is part of their daily corporate culture.

We are one of the few local companies where senior leaders discuss corporate matters with its employees. If you have ten minds, why should you only use one?

At KIPCO we invest in operating businesses. In adverse economic conditions our companies may be impacted, but they still remain operational in nature and they generate cash rather than just paper profits.

KIPCO is the only Kuwaiti based corporate that holds an investment grade rating from international credit ratings agencies, and these are improving.

OSN

- **What is the truth behind the latest offer to acquire OSN?**

We received a serious offer from a company and we notified the CMA in line with our core principle of transparency. After refusing the offer, we made it clear to our audiences why we rejected it.

- **Are there new acquisition offers?**

We have more than one offer from different entities, but none of these are at a stage to be announced at present.

OSN has immense growth capabilities in terms of revenues, which vary between 25% and 30% annually. The company's profits jumped 70% to 80% from last year to this one. In addition, the company is able to distribute cash that amount to US\$ 1 billion during the coming five years. I believe that the company is unique and is like no other across the region. It is currently the largest media company in the region and the most profitable.

- **So you will not consider selling it?**

We are open to all options, and if we do receive an offer we will look into it, think about it, and discuss it with our investors and strategic partners.

- **What about the listing?**

There is a great deal of interest from regional and international stock markets to list OSN, such as Dubai and London Stock Exchanges amongst others, to a point where they continue to call us to encourage to list. They understand that we have a gem in our hands, and it would be of added value to their respective markets, once and if we agree to begin the listing process.

A company like OSN certainly needs to be listed in an international market. The London Stock Exchange regulations require at least 25% of the company to be listed. If it was a matter of 10% of the shares that needed to be sold, we would have done so immediately.

Burgan Bank

- **What are the latest developments in Burgan Bank?**

Burgan Bank is one of the best banks locally and it has been for the past four years. The bank's growth is consistent, and its financial results are healthy. If OSN is KIPCO's gem, then Burgan Bank is also another gem. The bank has remarkable success stories inside Kuwait and across the region. If we compare its performance with that of the other local banks, we find that it ranks number two. I do confess however, that we do not communicate this well to the media. For example, non-performing assets in Burgan's portfolios decreased tremendously, and now account for 1.9% of the total facilities. This will positively reflect on the bank when these lower provisions are converted into profits. During 2015, Burgan Bank will continue its course of success in a clearer and more constructive manner. I would like to stress that both KIPCO and Burgan Bank continue to receive strong credit ratings from the international rating agencies.

- **We heard that there are some investment problems Burgan Bank is facing in its Turkish branch, Eurobank Tekfen?**

That is not the case. We are not facing any problems in Turkey. Everyone is commending us for the acquisition that took place earlier. Despite the fact that the timing of the acquisition coincided with political turbulences in Turkey and a drop in the Turkish Lira, our investment over there remain strong, and we hope to see positive returns during the coming years.

United Industries Company (UIC) and United Real Estate Company (URC)

- **Will UIC be delisted from the stock market? And what about URC?**

Yes, UIC will be delisted from the stock market. As for URC, there hasn't been a final decision as of yet. We are still monitoring the situation and we haven't taken a decision because we are thinking about entering into BOT projects which stipulate that companies working within its framework must be a listed.

- **Will there be a change in URC's strategy after its CEO recently resigned? And, is there a new CEO joining?**

The resignation of URC's CEO did not change anything in its core strategy. The company has its business and projects, and nothing was affected upon his exit. We are still discussing a couple of names to lead the company in the coming period. Once that has been decided we will announce it.

- **Are you looking at new acquisitions?**

We need to first digest what we have, and then we will look into other acquisition opportunities. Value creation depends on executing your strategy and we are focused on this.

- **What about KIPCO's investments in Algeria?**

We have a very successful banking story in Algeria. Gulf Bank Algeria is considered one of the most prominent banks in this Maghreb State. It is comprised of 45-50 branches and offers a number of innovative corporate and retail banking products.

- **Do you plan on issuing new bonds?**

Currently, there is no intention in to issue new bonds. Burgan has recently completed a bond issue for US\$ 500 million, which was over subscribed. The deal was very successful because these bonds are subordinated to the bonds which Burgan issued previously, but have a lower coupon.

KAMCO

- **Don't you see that KAMCO's role within the group is being limited?**

On the contrary, KAMCO remains at the core of our business. We have reduced KAMCO's borrowings and positioned it for growth. This is better for its investors. The company now has a number of new investment funds, with more in the pipeline. I would like to reiterate that the delay in issuance of pre-approvals by the CMA regarding the establishment of funds and issuance of Sukuk reaches up to six months, and this hinders our work in KIPCO and that of our investment arm, KAMCO.

- **What about Manafae?**

There is no turning back on the liquidation of Manafae Investment Company. The process is not due to the fact that it has incurred losses; it actually enjoys strong liquidity which will be distributed amongst investors after the process is completed. However the exit from the market is due to the fact that it has very similar operations to other companies within the group.

- **Is KIPCO the local investment group with the largest number of foreign investors?**

I am not sure whether we have the largest number, but we are definitely one of the groups that are most attractive to foreign investors. Many emerging and frontier market funds invest in KIPCO and Burgan Bank. Also, we have a strategic partner - the Canadian-based Fairfax - in Gulf Insurance Group. We are active in communicating our operations to investors. On an annual basis, we organize 5-6 investment roadshows abroad and our website also offers a lot of information.

- **Let us now talk about investment companies. Do you believe that that investment companies have learnt from the crisis?**

We don't think that the financial crisis has ended completely, even now. I think that a large number of the investment companies defaulted because the returns from its assets were not profitable enough, which led to them deviating away from the business activities for

which they were established. This prompted them to look more for capital gains and short term loans to buy stock and trade, in order to magnify their profits.

- **So, does that mean that investment companies' operations do not need large capital?**

Of course they don't, because their primary work is asset management. This is a simple, low risk business.

- **Why wouldn't companies play a role in developing the SME business?**

I suggest that the government gives more prominent roles for investment companies to support SMEs. SME owners suffer from too many restrictions. Investment companies could partner with SME owners to provide financial and business support and share in the business. Why couldn't investment companies offer proper and constructive support to those who need it? This could come in the form of field studies, analysis, recommendations to the government, monitoring the financial progress of the project, and giving it the proper logistics support possible with an agreed fee, instead of resorting to establishing new entities that will only serve to pile up more employees.

Jordan

- **Please tell us more about the Abdali Boulevard project in Jordan.**

It is a great project, and considered one of the biggest multi development projects in Jordan. It covers 12,100 square meters, and includes a total space that exceeds 25,540 square meters, along with a pedestrian tunnel that is 370 square meters long. The project includes entertainment facilities such as luxury cafes and restaurants, libraries, retail space that houses international brands, along with housing facilities with apartment hotels. The Abdali Boulevard is located in Al Abdali district in central Amman, and costs around half a billion US dollars. As for developing the Abdali district, the cost reaches to US\$ 5 billion.

- **What about the impact that the terrorist organization called The Islamic State of Iraq and the Levant (ISIS) and the war against it has on your investments in the area?**

Since I took charge of my position at KIPCO, we survived two wars, and three or four local and international financial crises. The current political situation in the region is challenging but I am not concerned from its impact on the group and its activities. As a group, that built its business on a regional front, cannot just stop our investments in the region. Our

companies have been achieving sound results on several fronts, despite events that resulted from the Arab Spring. We look at the current string of events separately, that they too might bring different opportunities we can benefit from.

FATCA

- **How committed are you in applying the FATCA? Don't you think it is a breach of client confidentiality?**

You are correct, but we don't have a choice. We must commit to applying the FATCA measures in line with what we receive from the regulatory authorities. We are currently doing so in regards to the FATCA. The talk on client confidentiality in banks is happening around the world. Switzerland gave up client information the Americans, and we continue to hear that there are increasing cooperation levels between Switzerland and Germany in this field. Personally, I see that the families that had their babies delivered in the US hoping to receive the US passport, are the ones that will pay the price when this law becomes active. The Americans began applying more taxes and are making it harder for those to give up the nationality. I think that this is something that has a wider reach in countries where dual citizenship is more prevalent, especially in countries like Lebanon, and Jordan.

Cadres

Al Ayyar says that the Kuwaiti market does not need more than five investment companies, since 80% of the assets managed in Kuwait revolve around 3-4 investment companies only. Their success is stretched across the GCC and even beyond that. This is attributed to the specialized nature of the companies' business and operations.

When asked how many shares he would invest in if he were to form his own KSE portfolio, he said, "Between trading and investment, I will only choose 10 shares. This does not mean that the remaining 190 shares in the market are bad ones, but I will only choose the best. As for the bad shares that cannot be invested in, I would say that they're not less than 100 shares."

Al Ayyar's working style

When asked about his style of work, Al Ayyar said, "My only problem here is that I enjoy working. I managed during the past years to minimize my attendance to the office, to

manage the business through the phone and emails, to ultimately achieve the right balance between my work and personal life while performing my hobbies. I wish I can lower my working hours during the coming period. Successful management only becomes successful once a clear strategy has been put in place, along supervising, and selecting the right candidates that can truly be depended upon to get things done.”

Alaska in the summer, and Dubai in winter

On his tourism experiences, Al Ayyar said, “During the summer, my experience of going to Alaska was the best. I spent two weeks that made me feel that I am in a different world, or at the end of the world.” During winter Bu Mubarak prefers going to Dubai, away from the rush, celebrations, to perform his hobby, golf. He spends a great deal of time in luxury restaurants across the Emirates.

Laws that prompt domestic investors to flee the market before the foreign ones

Mr Faisal Al Ayyar said that the BOT projects, before applying rule #7 for the year 2008, was strongly present. After the law has been applied, these projects have vanished. If the environment was not a promising one for local investors, foreign investors will not come close to Kuwait’s investment scene.

He further added, “Organization is needed, but without hindering creativity. If there was a new idea that can help the state achieve more revenue, and one which offers innovation and creativity, there shouldn’t be stringent rules towards it or mere rejection.