

Interview with KIPCO Vice Chairman (Executive), Mr Faisal Al Ayyar
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- **What is your opinion on the new government?**

The new government is of the same taste and color as its predecessor. However, we will maintain good faith and trust that it is capable of a change in performance and the way in which it handles matters.

- **Are you convinced of this, or are you being optimistic?**

The amount of pessimism that prevailed in the past has not been of use, and thus we must try to be optimistic and see if this will change to the better. The current parliament represents most of the people, and the government has been endorsed by the parliament. I do not wish to be pessimistic and base this on past acts. The ministers are at the beginning of their tenure and we must give them a chance.

- **What about the parliament?**

A large segment of the society was not satisfied by the previous parliament. However, the new one represents almost all segments of the society. We do not have parties, and the blocs that were formed after the elections do have common values that stand in the way of cooperation. I have great faith in Parliament Speaker Mr Marzouq Al Ghanim, who has proven to be successful in his performance and principles. I am impressed by the way he handles matters, and it is my opinion that he has a significant and important role to play in bringing together a group of MPs that can agree on two or three main issues and work together on them.

- **What are the issues that require immediate focus?**

First, corruption. This matter must be a priority. The Anti-Corruption Authority was recently set up but will need time to establish itself. The State has many tools it can implement to fight corruption, including the application of the whistle-blower law which has been adopted by many countries, allowing the person who comes forward with information a percentage of the sum being reported.

It is well-known that bureaucracy and complicated procedures offer a fertile environment for corruption to flourish, because when matters get complicated people start to look for shortcuts. The only solution to fight corruption is to simplify procedures. Also, fighting corruption must not become a wedge that hinders the wheels of development, as was the case with many former parliaments who went as far as to consider event investor a “thief”! Corruption has also become an excuse for wrongdoing, where if a person is confronted they would say “Everyone does it, go stop corruption first.”

The second area of focus is the implementation of the law. This has the power to change the face of Kuwait, and requires justice and constant application.

I believe that the application of the law, simplifying procedures and showing strength in countering corruption are magical solutions to treat our problems in Kuwait, and without them we will continue to “limp” regardless of the slogans we adopt.

- **In your opinion, are spending cuts possible with the new parliament?**

Yes, they are possible, but not in the first year. Everyone talked about this matter during their campaigns, and I believe their case is strong and solid when it comes to spending cuts by the government and parliament. This can happen in the second year.

- **Can the reform bill be applied?**

If the State does not show seriousness in slashing spending, and if it doesn't fight corruption through at least the enforcement of existing laws, it will be difficult to enforce the reform bill.

- **What are the repercussions if the bill is not enforced?**

Calculating numbers is easy when it comes to accumulating deficit, the drop in financial status, downgraded ratings, all of which will affect everyone. I believe that there are two ways to reform. The first is to take matters into our own hands and take gradual and smooth measures to apply them to citizens, government and private sectors. And the second is to wait until we have no choice but to take measures, making the process a very painful one, especially as our financial capabilities at the time may not be as strong as they are now.

- **What is your message to the citizen, who is being asked by the government to make a sacrifice?**

There is no doubt that citizens will have to make sacrifices, but they also need a role model and that would be the State. When the citizens are aware that the government is over-spending needlessly while asking him/her to cut down, the citizen's normal response would be, "Why me? I am not wealthier than the government and I have a government and commitments." However, if there is a role model, the citizen will take the initiative.

- **Gulf states applied much harsher reforms, so why isn't Kuwait able to do the same?**

Simply because the voices of Kuwaiti citizens are much higher than those of any other Gulf nationals. Also, no Gulf state has offered its citizens as much as Kuwait has, and this makes dependency on the State a trend that citizens have gotten used to.

- **Do you have any fast remedies for the diversification of Kuwait's revenue?**

First, utilizing Kuwait's geographic location, given that we share borders with three large countries (Saudi Arabia, Iraq and Iran). We have in fact invested a lot of money in the construction of Mubarak Al Kabeer Port and Jaber Bridge, and more has been allocated for Silk City. Despite the fact that Mubarak Al Kabeer port is almost complete, no announcement has been made as to how it will be utilized.

This is something we can apply today, because the legal framework and infrastructure are in place, and countries like Iraq and Iran are in need of the role that Kuwait can play. So why, for instance, don't we select the largest 150 commercial companies in Iraq as a start and grant them facilitations for using the port?

There are those who believe that political circumstances do not allow for this, and my response is that we need to be realistic and learn from what is happening around us. Bahrain was a regional financial hub and fell back due to security concerns. Meanwhile, in Dubai we have an example of the benefits of being open. At some point in Jordan, passports were awarded to Iraqi merchants. Kuwait has the

capabilities and its location gives it an edge, and we must not look at Iraq in the circumstances it is in today, because at some point in the future it will stabilize and we need to focus on the rich south. There is no need for us to heed only to security concerns and lose out on opportunities with neighboring countries like Iraq and Iran.

Second, everything in Kuwait except for crude oil must be privatized, with the State keeping only crude oil as is done by Aramco and others. This way you encourage businesses and creativity, and the private sector is able to operate effectively. In this case, most of the oil will be exported in the form of oil derivatives with added value. Only after all of this can you implement a taxation law.

- **What prevents the privatization of the oil sector?**

For a long time, the oil sector remained closed, while witnessing some slight changes recently. The mindset has remained the same for 50 years. I said at a seminar organized by the oil sector that “yours is a private club, and you need to open it up a little.” Despite the changes that have taken place in the oil sector recently, it still remains a “semi-private club”,

I am not accusing anyone of anything, but they can be more transparent, and to let go of this culture of many years requires a revolutionary mind and management. If this happens, foreign investments will race to use even before local ones.

- **Do you believe that the best means is to offer the companies up in IPOs?**

When we talk about IPOs you will find those who say that people do not pay for the shares and once they have them they sell them immediately and use the money to travel or dress up. Bear in mind that many Russian billionaires became wealthy from such circumstances, where the government offered shares to citizens at discounted rates and they couldn't wait to sell them. And so people of influence bought all the shares and came to control large oil corporations.

- **What would be an alternative route?**

I am not against the distribution of wealth, but this wealth must have a price. Citizens must not be given free shares, and if this is in fact the case, then they should at least be prevented from selling them for at least 5-10 years to teach people the importance of investment and prevent consumer spending tendencies.

- **Do you believe that the development plan will be affected by the spending cuts?**

I don't see any spending cuts. I am happy with the infrastructure projects, including bridges and roads. But what bothers me is that the government continues to be over-staffing its ministries while suffering from low productivity. Despite this, we go on building huge headquarters for ministries and public entities that cost millions. One example is the headquarters of the Ministry of Awqaf and Islamic Affairs on the Fourth Ring Road, which is phenomenal in size. Why does the government allocate such capital during these difficult times? And why isn't the private sector given the chance to play a role?

There is needless overspending in the construction of fancy buildings. The cost of the headquarters of the Central Bank of Kuwait and Kuwait Investment Authority on the Gulf exceeds half a million dinars (cost of construction and land). Why doesn't the government put aside its conventional thinking and sell

this prime land, and instead building something at a lower cost along the Sixth Ring Road and on land owned by the government?

And if we must have headquarters for government entities, then why don't we adopt something similar to global practices where prime locations are allocated only for the teams that deal with the public, while support functions are located in places where the cost is lower. This, by the way, can also help alleviate the traffic problem because employees and clients will be heading outside the downtown area.

- **You among the first to delist your companies. The law has changed and so has the CMA board of Governors, but companies continue to delist. What is the problem?**

We cannot deny the change and development in both the CMA and Kuwait Bourse. The problem, in my opinion, is placing pre-approvals from which most of the companies are suffering. For instance when you apply for a bond issuance, the long process is one that is not suitable for the instantaneous changes of the market and its circumstances. I believe that the success of the CMA lies in easing and simplifying procedures and penalties, such that approvals are made post the transaction and not before, and those who do not adhere to regulations understand the penalties they stand to face.

This is why while the CMA has hundreds of employees, it needs many more to keep up with the pre-approval process it has applied.

- **Do you intend to delist any other companies?**

We have no intention of doing so. The delisting of companies came due to special circumstances. UGB is already listed in Bahrain, and we own a large percentage of UIC directly and indirectly. As for Manafae, its strategy became one that cannot be implemented.

In short, every listed company has its circumstances and reasons for staying on or getting delisted. There are those who wish to cut down spending, while other wish to steer away from supervisory procedures such as corporate governance.

- **Do you intend to list any companies in the coming period?**

The environment is not health for listing new companies. At the moment, we are working to maintain the gains we have made in our markets and to expand our operations there. We are also working to raise the competitiveness of our companies and to continue to grow them.

- **Are you interested in the "market maker" system that was recently issued?**

KAMCO may apply for this, but as KIPCO we are more interested in treasury share loans of which the Group has large reserves in the market.

- **Are you optimistic that new tools will be made available in the market?**

Yes, because having new tools will made the market more dynamic and make profits possible in case the market goes up or down and thus make trading stronger. However, this depends on the type of tools that will be introduced, the way they are managed and how well people understand them.

- **How do you rate Burgan Bank's performance?**

The bank's performance is good, and its results are proof of this.

- **What is your relationship with the Central Bank of Kuwait, especially in relation to reserves?**

We continue to allocate reserves in cooperation with the Central Bank of Kuwait. What I would like to point out here is that after eight years of allocation, the bank's precautionary reserves have become a very large sum. The Central Bank has the option of continuing to request the allocation of cautionary reserves that are taken out of profits and reflect a bad bank performance, or it can benefit from this by increasing capital efficiency or increasing shareholder equity.

However, this is a second option that I present to the Governor. Banks can be allowed to announce the reserves as profit, and at the same time the banks are asked not to distribute them. This way, the reserves raise the capital efficiency and reflect good bank performance, which will reflect positively on Bourse performance.

- **Are there other central banks that do this?**

We cooperate with a number of central banks that apply the principle of "grandfathering" in some cases and from whom we work together on financial engineering. The CBK does not do this, and applies laws word for word. A bank's mandate is to grow, and you cannot force shareholders to increase capital every year.

- **Do you believe that part of Bourse's restrictions is related to the conservative policies of CBK?**

Yes, that is one of the main reasons. There is another example that I am sure is part of the real estate market drop, and that is the hasty implementation of the Basel III with no exceptions. These principles have not been implemented by many banks in many countries and are being taken gradually. We must understand that our economy is limited and depends on the stock and real estate markets. The CBK's policies are affecting both.

- **Did you benefit from removing JKB from under the Burgan Group?**

Yes, it gave Burgan a chance to breath and grow.

- **Are you thinking of repeating this?**

We never stop thinking, but there is nothing definitive – only ideas at this point.

- **Was Burgan affected by the drop in Turkish Lira?**

The numbers do not show a large impact on the results of Burgan Turkey. We have hedged and we are prepared for any repercussions.

- **There is a slight drop in the growth rate of Burgan's profits in the first nine months. Why is this?**

We must remember that JKB's numbers have been taken out after the exit, and this accounted for around 10 million dinars. This is besides the increase in monetary value on Burgan, like other banks.

- **What's new for OSN? Will there be an IPO or a sale?**

There is nothing new here. As an operational company we are working well and making close to US\$ 800 million a year. We are currently in a phase of additional fortification due to the rising competition. We

have had to pay large sums to maintain our commercial relations with international studios, and we currently look to grow OSN in order to reduce additional costs.

- **What about selling or merging with Qatari investors?**

There is no such talk at this time.

- **Will your Group results fall in line with the expectations you announced during the Shafafiyah Forum?**

They will be close, but 2016 was a difficult year and I expect 2017 to be even more so.

- **You predicted KIPCO would double its 2014 profit by 2014. Is this still the case?**

I expect that realizing this goal will be delayed for a year or two, but we will have achieved 50-60% of our target, which is excellent compared to market circumstances and the increasing operational costs. For instance, implementing Basel III and issuing bonds at half a million dollars over five years costs Burgan around 25 million dollars, and for this we only need to meet the supervisory requirements.

- **What is the progress in Hessah Al Mubarak District?**

After all this time, we expect the Municipality to issue licensing soon. What I cannot understand is how investors are being treated, when we are investing billion in Kuwait under difficult market circumstances, including the drop in oil prices and the real estate market. However, I would like to note that we have recently begun to sense a new spirit at the Municipality.

- **What is behind this delay?**

Bureaucracy. The project is new, and every official and employee was to take the safe way out, and that is usually the longer one. For instance, when we requested title deeds for each plot, one of the officials decided that we needed to obtain the approval of the State Property Department, when for other projects this was not a necessity. At the moment, 82 letters – one for each plot – must be written in order to get the approval of the Ministry of Justice. This is bureaucracy.

- **You mentioned difficult market circumstances. Why are you going ahead with a project of this size?**

The project is unique in Kuwait and will be in high demand regardless of the circumstances. We are receiving requests from investments that assert this. All around the world, projects of this nature are not affected by the real estate market drop. At the end of the day, we believe in Kuwait.

I would like to point out here that the project is a residential one, offering complete services and will be an opportunity for Kuwaiti investors. Those who have liquidity can purchase a building, and those who have less can invest in an apartment with facilitations of up to 15 years. This way, you make a down payment and the installments are paid in place of rent.

- **What are the major developers that have expressed interest?**

We have 82 plots, and KIPCO Group will be developing 50% of it. Investors with visions similar to ours have reserved around 35% to date and we are waiting for the issuance of title deeds and approvals. WE

expect the part that will be constructed by our Group will be complete in less than five years, and we believe that the other investors will be working along the same timeline.

- **Do you believe that allowing expatriates to own property will boost the project?**

Of course, allowing this will reflect positively on the real estate sector.

- **Will real estate investments be affected by electricity hikes in May?**

Yes, all commercial real estate will be affected. After the invasion, the private sector offers the government the option of constructing the first electricity plant in Zour, such that the private sector would then sell electricity to the government for 7 fils per kilowatt. At the time, it cost the government 16 fils to produce a kilowatt of electricity. What would have been better, to raise the price on citizens from 2 fils to 4, or reducing your production cost from 16 to 7 fils? This is what must happen now. After the government brings down the production cost to that offered by the private sector, the government can then ask citizens to bridge the gap gradually. The bottom line is that government institutions must be managed efficiently in order to reduce costs that citizens must bear.

Highlighted topics

KIPCO applies the “whistleblower” principle

When noting the importance of fighting corruption and the importance of enforcing the whistleblower law by the government, Mr Al Ayyar said that the whistleblower principle is applied across the KIPCO Group. Despite the Group companies being among the “cleanest” in the market, this principle protects the Group against corruption. He added that the bold application of this principle is part of the Group’s risk management and internal audit procedures.

Overspending numbers not surprising

Regarding the Al Qabas report on the KD 1.3 billion in government fees that have not been collected from institutions, companies and individuals, Mr Al Ayyar said that this number is not surprising.

Overspending: ten to one

Regarding the KS 40 million saved by the government by reducing subsidies on gas, Mr Al Ayyar said that the government can save KD 10 in overspent money for every KD 1 it collects from citizens. He stressed the need to first put a stop to overspending, before collecting money from citizens. This, he said, would legitimize the government’s demands and show that the government has done its part before demanding that citizens cap spending.

The traffic law as an example

Al Ayyar stressed the importance of enforcing the law to resolve social issues. As an example, he noted that applying the traffic law regarding cars that blocked traffic flow put an end to an endless problem overnight. What is required is for the law to be enforced on everyone, with no exception.

Two unanswered questions

Al Ayyar said: Since construction of Mubatak Al Kabeer Port commenced, the question has been whether this port will replace Shuwaikh Port and the industrial area, if only for environmental reasons and the protection of the bay, home to the best fish and prawns. The other question is, if Shuwaikh and Shuaiba Ports are to remain operational, what will be the purpose of Mubarak Al Kabeer Port?

Optimistic towards Minister Al Sabeeh

Asked about his opinion about the new ministerial positions introduced in the new cabinet, like the Ministry of Services and the Ministry of Economic Affairs, Mr Al Ayyar said: Names do not mean much. It is achievements that are important. I am very optimistic towards Minister Hind Al Sabeeh. She is an impressive woman and was very active in the previous government. I am impressed with her ability to deal with corruption files in the Ministry of Social Affairs. Taking a closer look, I am affiliated with an NGO that deals with learning difficulties, and I have witnessed how the minister has supported this NGO and others. We must not only criticize, but also commend those who take their positions seriously.

Minister from the private sector

When asked about his opinion in raising the number of female ministers, Mr Al Ayyar said: I propose raising the number of ministers from the private sector, men and women.

Former Minister: Increasing the salaries in public institutions will not cost the State anything!

When talking about overspending in the construction of new government buildings, Mr Al Ayyar joked about a statement made by a former minister, who said at the time that the salary increase of employees of the oil sector “will not cost the government anything”, as if the budget of the oil sector is not part of the State budget. After that we saw how salary increases were applied across other sectors, adding burden to the State budget.

Al Ayyar to the CMA: Time is money

Referring to the delayed approvals from the CMA, Mr Al Ayyar said that approvals for bond issuances, when delayed, result in a price that the companies must pay because demand circumstances change or interest rates rise.

And in relation to Kuwait’s delay in issuing sovereign bonds after the increase in US interest rates could raise the cost by some 70 points. Therefore, one must think about the right time to enter a market according to economic forecasts, which is what Saudi Arabia did when it entered the bond market as the right time.

Oil operations and NBK

In relation to the impact of the oil price drop on the banking sector, Mr Al Ayyar smiled and said that it is the State that has felt the impact, not the banks. He joked: Perhaps you mean NBK, which is the bank that deals with the oil sector. He added: NBK remains the largest of banks.

What did the Central Bank do for banks during the crisis?

On the role of the Central Bank of Kuwait during the financial crisis, Mr Al Ayyar said: I have asked this question more than once, what did the Central Bank do for banks? Banks and shareholders bore losses in the billions of dinars, and in response the government injected deposits – deposits that were paid

interest higher than that of foreign banks, so it was not for free. Most countries bought assets, and there were even some less wealthy states that supported their banks with deposits or by guaranteeing deposits.

Why does there appear to be an insistence on making it appear like banks are suffering from problems?

Al Ayyar wondered: Why does the Central Bank, eight years after the financial crisis, continue to leave an impression like banks suffer problems even after all of the allocated reserves? Improving the image of banks will reflect positively on the Bourse and thousands of shareholders.

On the other hand, all international rating agencies affirm that Kuwaiti banks are doing well and have the largest reserves in the Gulf. So, why does the Central Bank of Kuwait get all the credit, when it is the banks that are bearing the burden.

Dividends will not be less than 2015

Asked about dividend distribution in 2016, Mr Al Ayyar said: For us, dividends are a principle that we will stand by, and I don't believe that they will be lower than those of last year.

Oil prices up and down

Asked about what oil prices, Mr Al Ayyar said: Oil prices are up and down, how can we want to both maintain our production quota and raise the price? We must make a compromise and give up a part of this quota. I believe that OPEC is convinced that oil prices must be between US\$ 60-70 for many reasons. Once oil hits this number, production will once again be raised and we will go back to a drop in prices.

Responses to the book, 'Money & Sand'

Mr Al Ayyar said: Responses to my book, 'Money & Sand', have exceeded my expectations and have come from different segments of the society: politicians, economists, professors, columnists. They all agreed on two things, and both are important to me. The first is the amount of information that the book contains. And the second, the book did not accuse any of the individuals involved, but dealt with sensitive issues objectively. There are some former oil sector leaders who were impressed by the objectivity of the book, and there is a widespread interest among young people, and in social media. I have also been invited by professors to discuss the book with their students.

Fear of dinar migration to dollar "fabricated"

Regarding the decision of the Central Bank of Kuwait to follow the US Federal Reserve and raise interest rates, and how much banks will benefit from this, Mr Al Ayyar said: Yes, banks will benefit, since low interest rates are not beneficial to the economy. Global economic growth is weak, with the exception of the US. However, the fear of migration of dinar to dollar (the justification of the Central Bank), this is a fabricated concern, because the dollar is at its highest value and investing in it will involve high risk.