

August 29, 2011

Interview



Central Bank's sensitivity

When asked about NPLs and CBK requirements in respect of these, Eduardo Eguren said "The Central Bank of Kuwait is sensitive towards NPLs and pushes us to be more cautious. I think in the current economic climate, an economy needs a sensitive central bank. The Central Bank wants banks to cover all exposures, build a strong capital base and eventually be prepared for Basel III. I highly appreciate the Central Bank of Kuwait's wise policies."



بنك برونتان
BURGAN BANK

driven by you

The first interview with Burgan Bank's CEO, Eduardo Eguren

Burgan Bank is number one in terms of returns on shareholders' equity



How do you evaluate your first year at Burgan Bank? What were the major changes that took place during this year?

2010 was themed as the year of change and recovery for Burgan Bank. During the year we concluded the acquisitions of majority stakes in Jordan Kuwait Bank, Bank of Baghdad, Gulf Bank Algeria, and Tunis International Bank. This move has positioned Burgan Bank as a major regional banking group. Since I joined in September 2010, we have agreed on three main objectives. These are to restructure the balance sheet, to further manage credit costs, and to focus on setting strategic plans that are based on international best practices. Today, we can see a positive turn of results. Currently, Burgan Bank has a strong balance sheet and enjoys high liquidity. We have a strong capital adequacy ratio at 21%, and we have shown a remarkable improvement in credit costs and a strong financial performance quarter on quarter. All of these reflect our sustainable growth trajectory despite regional unrest. We are ready to grow, and this growth has already started.

The financial situation

What are some of the results that Burgan Bank has realized after becoming a major regional banking group?

The impact on the results of our expanded operations can be clearly seen in our strong financial performance during the second quarter. Our normalized revenues increased 17% in the second quarter of 2011 against the second quarter of 2010, while the net profit increased 14% from the first quarter. Credit costs decreased 74% against the same period of 2010. The bank has also allocated precautionary provisions that amounted to KD 8.1 million including counter-cyclical reserves. If we look at our net profit, we can find that we achieved KD 13.5 million during the second quarter and, as a result, KD 25.3 million during the first half of 2011. I feel that we are on the right track to reach the level of profitability we were at before the financial crisis. Nevertheless, the Bank is still holding more provisions and loan portfolios are not yet 100% cleared. However credit costs, in regard to NPLs, have returned to normal levels. Today no bank can claim that they are free from the credit and loan issues, however we managed to decrease credit costs, and the non-performing loans were reduced by 31.5% to KD 159.7 million in the second quarter of 2011. This reflects a remarkable drop from the level of KD 233 million in the second quarter of 2010. The coverage of these loans also increased to 180% including guarantees. As per the Central Bank's criteria, these loans are not considered "lost" loans, rather they are classified as "non-performing" loans, to identify that clients are not paying as scheduled. These will still include customers who have not canceled at least 50% of their principal loan and had problems in the past. They may, however, have recovered well and be in reasonable shape today. Some of our customers still need support, and we are happy to offer this to assist our good customers. The Central Bank's approach to NPLs is conservative, and are required to be provisioned generously. It is important to note that each bank has its own consideration and way of dealing with non-performing loans (NPL), and it is normal for any bank to have risk factors as it grows. The positive side of this is that we are not in 2008, 2009 or even the middle of 2010.

What is the volume of corporate credit exposure of the Bank, excluding the guarantees?

KD 47 million, and we reserved provisions for all of these loans, but remember that our exposure

was KD 109 million last year. Of course we have some problems, but we also have coverage of 180%, and it is important to note that we have a number of clean portfolios. Today we have general provisions in this regard that are 70%-80% higher than the limit recommended by the Central Bank of Kuwait.

Do you think that the group will keep taking provisions?

For cautious reasons, and whilst interest rates remain low, we will take more in the future. We will not keep holding provisions for NPLs in general as it is a meaningless step. We will try to retain 100% coverage for these loans.

Why more provisions?

For three reasons: firstly, because we are very sensitive towards the NPLs, and uncertain of the underlying economic conditions. Secondly, because the Central Bank requires regular reports concerning NPLs and credit exposure of clients. Thirdly, some clients do not fall in the category of NPLs, but there is always a possibility for their loans to become so, and therefore we need to reserve higher general provisions. We'd rather be conservative and cautious as we believe that the more cautious we are, the stronger we can be.

What is the percentage of your Kuwait operations with respect to the total profit of the group, and what are the results of your subsidiaries?

Kuwait's share of net income increased from 29% in the fourth quarter of 2010 to 69% in the first quarter of 2011 then further to 72% in the second quarter in 2011, I believe that this is a strong performance indicator.

In regard to our subsidiaries, they all achieved growth against the same period of the previous year. However, Bank of Baghdad delivered the fastest growth rate where the revenues increased by 60%, followed by Tunis International Bank where revenues grew by 45% and Gulf Bank Algeria which increased 30%. Jordan Kuwait Bank increased by 5.4%, but we must also note that Jordan Kuwait Bank recorded the highest revenues of KD 11 million. We are happy with

this growth in a market as mature as Jordan's, and the opportunities for the Bank of Baghdad in Iraq are huge, yet we remain cautious in regard to credit. As the situation stabilizes in Libya we foresee good opportunities for Tunisia.

Why does your Kuwait operation keep the lion's share of the group's profits, and what is the aim of this conversion to a regional operation?

It is because currently Burgan Bank represents 70% of the group. However, in the long term we are seeking growth across all the arms of the group. We shall be focusing further on the subsidiaries because the economy in Kuwait is limited through a specific type of growth due to the size of population and its geography.

If the Kuwait Development Plan goes ahead we shall have sizeable additional growth opportunities. On a strategic level, we want to diversify our business in terms of geography, demography and risk distribution so that we can have more growth opportunities and decentralized development tracks.

Being a regional bank helps to diversify income channels and helps decrease the concentration of risks, and it will allow for greater ease in managing liquidity. For example, where Jordan Kuwait Bank knows the customers and its business in Jordan, the Group supports this knowledge through diverting its liquidity.

So, while Burgan Bank Kuwait enjoys a high level of liquidity, through this we can finance a client in Jordan from Kuwait. Looking again at Kuwait, we are searching for more local growth opportunities. We have a healthy market share across various banking lines.

It is important to mention that there are banks that may well claim to have a bigger market share in terms of products and services, but for us the focus is towards return on shareholder's equity. We manage by returns. We set our objectives for a business model that will keep working successfully irrespective of economic conditions and we have noticed that, as a result of this, our subsidiaries were not deeply affected by the region's political turmoil.

Curriculum Vitae International Banker

Eduardo Eguren brought to Burgan Bank more than twenty-five years of experience in the banking sector. Prior to joining the bank, Mr. Eguren was CEO, Global Commercial Banking operations of Barclays plc, London. From 1984-2007 Mr. Eguren held senior management positions within Citigroup / Citibank / Citi including Chief Financial Officer and Chief Operating Officer covering the divisions including corporate and retail banking, asset management, insurance and pension funds in Latin America, Europe, Asia, North America and Africa. Mr. Eguren holds a CPA certificate. He is married with four children, enjoys playing golf, and plays an active role in supporting organizations that provide preventive care, support and medication against diseases and supports Education programs in his home country, Uruguay.

Banks that increase deposits rates

We asked Mr. Eguren about this issue, and he said: "Yes indeed, we noticed that our deposits started to get higher, taking into consideration that we did not change our pricing strategy, but we need these deposits to achieve our business expansion. We keep an eye on the deposits market by trying to achieve a fair pricing strategy without raising the prices dramatically".

A Capital Adequacy Ratio of 20.1%

The Chief Executive Officer of Burgan Bank Group said: "We have a strong balance sheet, and we have successfully made a capital raise through rights issuance and issuing subordinate bonds. We think we don't need any capital increase for now".



Translated and edited from Ahmad BoMar'ey's interview for Al Qabas newspaper

Currently, two significant milestones are helping shape the future for Burgan Bank. The first revolves around the bank's overall transformation from a local commercial bank into a major regional banking group, whilst the second is through the achievement of consistently recording profits for the last four consecutive quarters following the economic crisis. Both of these coincide with Burgan Bank's CEO, Eduardo Eguren, completing his first year at the bank.

Speaking to Al Qabas newspaper, in his first interview with Kuwait's national press, Mr. Eguren shed light on the key issues he has faced during his first year at the bank, whilst at the same time expressing satisfaction with the overall results achieved during his tenure thus far. Although Eguren says that Burgan Bank is headed towards pre-crisis profitability levels, he is candid enough to admit that there is no one in the industry that doesn't experience credit and loan portfolio problems.

He talks openly about the critical issues that face the banking sector, whilst he also highlights the group's strengths, and has surprised analysts by swiftly guiding Burgan Bank to become the leading bank in terms of return on equity (ROE). This achievement is reflected in the continuation of the positive results the bank has been producing; and is all the more notable since last year it languished at the bottom of the same ranking list.

Mr. Eguren points out that non-performing loans have decreased to 31%, reaching KD 160 million during the second half of the year, down from KD 230 million, with a coverage (net of collaterals) amounting to 180%. The credit exposure of the bank totaled KD 47 million, nevertheless he states that the group is well positioned to cover these loans with provisions being allocated with a ratio of 70%-80% above the rate which the Central Bank of Kuwait requires.

He says that, unlike typical bankers who connect profitability and growth directly to the outcome of the Kuwait development plan, he himself is not fond of such connections, and as such he is leading Burgan Bank Group towards alternative solutions for sustainable growth which are not dependent on the progress and outcome of Kuwait's mega-projects and development plan.

Coming to Burgan Bank with twenty-five years of experience in the banking industry with international banking brands including Barclays and Citi Bank, Eduardo Eguren is persistent and sustains a determination to fulfill his strategy: to maintain a strong balance sheet, and to control and reduce credit costs whilst maintaining the overall growth plans of the bank.

He mentions that this wider expansion will enable the bank to yield positive results and manage risk factors in an increasingly balanced and structured manner.

Mr. Eguren, who is a keen golfer, sees the significance of Burgan's evolution into a regional banking group as part of his plan to take the business from tee-to-green. The interview is as follows:



Where do you position the group in terms of your focus on returns on shareholders' equity?

In the second quarter of 2011, the bank became number one in terms of returns on equity, this came on the heels of being number three in the first quarter. These results exclude Islamic banks since it is not possible to compare their business model to ours. We recorded an 11.7% return on equity in the first quarter of this year, while in the second quarter we achieved 13.1%. Even for international banks operating amongst the current financial conditions and circumstances, these results are not easy to achieve.

We also still need to take into consideration that we don't yet have profitability in some lines of our business, for example, retail banking where we are the youngest retail operation in Kuwait. The reason we were able to achieve this performance is due to the strict control and management over expenses and a focus on solid banking fundamentals.

How do you read the results of the group's subsidiaries?

We cannot compare one bank easily to another because of the difference in markets. All performed well and showed good growth, Tunis was stable. All enjoy a high level of liquidity and high capital ratios. It is not a surprise to us that we were able to trade without unpleasant surprises. These high levels of liquidity enable us to expand our dealings and operations with clients without running into problems.

What about your exposure in the countries that are experiencing political turbulence?

We have performed well in all our subsidiaries. We don't have any credit exposure in markets seriously affected or greatly exposed, while in Iraq we enjoy remarkably steady growth. Iraq continues to attract significant investments, and we expect to remain a leading bank there in the long-term. It is my view that these issues are socio-political rather than economic, and distinct from those which definitely had their impact on certain economic sectors such as tourism in Egypt and Jordan.

However, we are not ignoring the importance of these. These problems are not the same as the financial problems unfolding in the United States, and Europe. In the Middle East region, what we are seeing is a restructuring of the socio-political system. Both of these are amongst the reasons our subsidiaries performed well during the year.

How can you achieve good performance despite the restriction of new loans? Even other banks couldn't record increasing profits in the way you did?

We achieved this growth because we developed our business without linking it to the growth in the credit market or the reduction of operational costs. Irrespective of the expansion of the credit market, by pricing risk better our fee income helped us to improve this equation.

What we are focusing on is to maintain stable and progressive growth as we further control credit costs, maintain a strong balance sheet and foster core earnings. Through these, Burgan Bank Group is well poised for growth.

KIPCO involvement

What is the percentage of corporate loans for the KIPCO group in your loan portfolios?

15%, and we are ready to increase it further. We don't look at the loans as one portfolio because each company has its own unique and separate risk profile. We evaluate each transaction one-by-one and we apply arms-length rules evaluation giving each one a separate risk profile.

I am looking forward to increasing the business relationship with KIPCO group as it has a huge base of operating subsidiaries in various business sectors that include insurance, healthcare, real estate, tourism, and multi-media.

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"Our normalized revenues increased 17% in the second quarter of 2011, while the net profit increased 14% from the first quarter"

"Today we have general provisions in this regard that are 70%-80% higher than the standard criteria recommended by the Central Bank of Kuwait"

"Being a regional bank helps to diversify income channels and helps decrease the concentration of risks, and it will allow for greater ease in managing liquidity"

"We'd rather be conservative and cautious as we believe that the more cautious we are, the stronger we can be"

"Our subsidiaries all achieved growth against the same period of the previous year. A highlight was Bank of Baghdad which made the fastest growth rate and where the revenues increased by 60%"

"We continue to work to increase shareholder's returns. We manage by returns. We set our objectives for a business model that will keep working successfully irrespective of economic conditions"

