

HSBC CONFERENCING

Moderator: Vikram Viswanathan
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Coordinator: Good morning, good afternoon, and thank you all for standing by. During today's conference all participant lines will be in a listen-only mode. We will connect the Question and Answer session at the end of the presentation. If anyone would like to ask a question please press star followed by 1 on your phone.

Today's conference will be recorded. If anyone has an objection you may disconnect at this time. I will now hand the call over to Vikram Viswanathan. Please go ahead, sir. Thank you.

Vikram Viswanathan: Good morning, good evening, welcome to the Burgan Bank 3rd Quarter earnings conference call. We have with us today Mr. Eduardo Eguren who is the CEO of the Burgan Group. He will take us through a short presentation before we open the floor to Q&A. So without further ado, it's over to Edwardo.

Eduardo Eguren: Thank you, Vikram, and again thank you everybody for attending our call. Just a couple of logistical topics, we were planning to have our presentation taking probably around 15, 20 minutes and we will have plenty of time then

after for the - up to an hour to - for Q&A's. And just in case you are not familiar our financials are presenting in Kuwaiti Dinars which is approximately 3.6 times dollars - per dollar, if you want to make the conversions.

So with that, well, let me discuss a little bit our 3rd Quarter. I guess that amid all the entire global economic scene and the uncertainty that it's been perceived by everybody, particularly in the financial sectors around the world.

I'm pleased to deliver some good news on our side. As you know, we monitor the microeconomics scene closely. We remain cautious, however our performance and financial position gives us good confidence that we will be - weather the turbulence safely. And when I speak about this I'm speaking even if it lasts a year or two.

If we speak to our Page Number 3, our first page of the presentation, our punch lines are very simple. As you can see we have a good quarter, five quarters in a row of good performance, our balance sheet remains healthy, strong, and after five quarters of performance we can claim clearly that we have restored pre-crisis profitability levels well and we're in line for our good and solid 2011.

If we swing to Page Number 4 this is a similar chart that the one that we have presented over the last two quarters. On the top left side what you see is our revenues. You know how firmly we are looking into trying to build our top line, there are some - always some one-off in every quarter but we continue showing steady growth.

And please remember that we are in an environment where the financial sector balance sheets are not growing, and therefore we are very pleased with this performance.

Top right, our cost of credit keeps under, I would say, very acceptable levels. Our NPLs, however, have come up this quarter, but we decided after evaluating all our exposures and provisions that we don't need to do anything else.

And bottom left you see our winter profit which is probably the most simple and convincing indicator of performance. Bottom right what you see is something new. This is we run our company for performance, not for size, and we're looking very carefully about our financial indicators, and this is a good summary of some of our scorecard, and as you can see the numbers are looking well.

Let me go a little bit in terms of performance, Page Number 5. Here we see a summarized balance sheet, sorry, P&L. The trends line by line are okay but more important than this are two indicators that frequently we all tend to forget. First this what is our efficiency, our relationship between cost and income.

We have been in an upward trend in terms of increasing our operating profits to cross-margin. We have reached 66% which is obviously not that. And last but not less something that is I'm sure that you have seen few cases in other markets where literally 37% of the revenues flow straight to the bottom line. This number is really where we are really displaying with great pride.

If we go to Page Number 6 this is a simple balance sheet, evolution of key lines. Again, please bear in mind that when we run the bank we are very

conscious of two things, first is that the economic environment around the world, obviously has some uncertainties, but we are committed to keep expanding our business with prudence, with good balance around risk and I'm proud to report that both assets and liabilities and yielding assets and liabilities with customers are both going in the right direction. Clearly we are taking some market share from competitors at this point.

On Page Number 7 here we have our non-performing loan portfolio. You will see that our non-performing loans increased this quarter. We have essentially three customers, two in Jordan and one in Kuwait, that we are reporting as non-performing.

We feel comfortable with our level of (collections) and provisions against them. So that's why we decided that we didn't need additional provisions, but these things happen. We don't believe that this is a trend.

Top right, what you find is some new piece of information. One of the reasons why we are able to grow is because we have put enormous focus after defining our new risk architecture in going for business being very selective. So we started managing our origination process in a much more active way and we have really been doing well there and that's why our volumes and revenues are coming up.

We have over the last few months originated, just on the asset side, more than KD400 million of additional businesses close with customers, but they have come through our balance sheet only 100-plus. That's because it takes time for some of these transactions to just - facilities to be drawn.

What this means is that we are having a good pipeline for revenues to keep growing and at the same time to compensate some of the businesses that simply matured because the economy is not growing.

On the bottom of this chart the usual pie's reflecting the portfolio of businesses and lending exposure. This mimics the economies in which we are working. We recognize that we have less concentration in real estate and construction than our competitors and we feel comfortable with that. But as we said, our economies are not as diversified as others.

On Page Number 8 a chart that I've been showing over the last few quarters, but I insist in showing this. This is how our subsidiaries are doing. Just two punch lines on this chart. If you compare our revenues and our net profits per subsidiary you will realize how healthy our bottom line is against revenue. So we are having very good efficiency and also risk management.

And if you look at the bottom of this chart you will see that loans and deposits, that balance is also quite healthy in all our franchises. So again, the trend that we have seen over the last few quarters also in the subsidiaries is healthy.

Connecting this point with the next charge, Page Number 9, what you see is how the revenues have evolved, same quarter last year. Please don't forget that this quarter - I forgot to mention this earlier, 3rd Quarter is when we have Ramadan and also July is - during the summertime is a heavy month of vacations where economic activities tends to go down. So we are comparing him like to like.

Our franchises are growing, Jordan has stayed flat-ish year-on-year but considering how the Jordanian economy is moving we are more than happy

with this performance and we're not pushing any of our subsidiaries to take adverse risk just for the sake of growing. So the group is growing well, we definitely feel very comfortable with the mix.

Page Number 10, if you allow me a little bit of bragging here, our performance against our competitors in the local market, the conventional banks, is showing for the second quarter in a row that we have the highest return on equity. We reached 15%. And something that is normally not seen but is how our internal scorecards work is how good are we in the use of our own resources.

As you know, we have acquired some subsidiaries over the last couple of years. So we were in the need of putting some goodwill intangibles in our balance sheet. So if we make an analysis from us and comparing as we competitors, right, in terms of returns, what is called Net Asset goodwill, our return for the quarter is 26%. There's nobody in Kuwait or in the region that we are aware of conventional banking that is crossing the 20%. So that's why we feel that we have a very good financial scorecard in the 3rd Quarter.

So closing it and before we open this for questions, normal quarter in healthy trend in adverse circumstances we are cautious that we don't do things that are improper in terms of risk considering the circumstances, but we are committed to keep growing and with profitability, balance sheets moving into the right directions, NPLs went up, that's true, but we are not worried with that.

And as I said, our subsidiaries all are performing very well. So we can safely say that we have already delivered the most important strategic objective that we've fixed for ourselves for 2011 which is restoring profitability levels.

We look to 2012 that - with confidence. We are not optimistic in fast growth around the world but our strength may allow us to capitalize because of the circumstances of new businesses we'll continue beefing up our bottom line.

And with that, Operator, and Vikram, I open it for questions.

Coordinator: Thank you, sir. I would once again like to remind participants if anyone wants to ask a question please press star followed by 1 on your phone. Thank you.

Once again, for questions, that's star followed by 1. Okay, we'll just give it a few more seconds.

Vikram Viswanathan: Operator, can I perhaps open up the questions, Vikram here.

Coordinator: Sure, go ahead.

Vikram Viswanathan: Sure, I mean, clearly if we look at the 2011 performance we're seeing that provisions are clearly normalizing for Burgan. So clearly that's a very, very positive trend and I guess now the focus shifts toward growth. I guess the market is not clearly aware that the loan losses and provisions are declining and coming back to normal levels.

So if actually you can share with us what is the growth strategy, how will the subsidiaries be integrated and grown going forward? I think it will give us a good sense for direction in terms of the growth.

Eduardo Eguren: Thank you, Vikram. So in that sense you're asking us for what is our growth engines going to be in the future, and particularly how the subsidiaries play there. Correct?

Vikram Viswanathan: That is right. Also - that is of course one of the questions, also in the near term should we actually expect better growth in 2012 given that now the legacy assets have been more or less cleaned up?

Eduardo Eguren: Okay, good. Well, I think that we have proven that our strategic position is well directed. Our revenues are moving into the right direction. So there is no reason why we should change any of our present growth engines and its strategy. Because we never went into, you know, crazy growth or things out of some good prudent framework.

So our growth on the corporate side, private bank, financial intuitions, is going to keep being a focus for us and we are not planning to change this in the region.

The new things that we are planning to add is clearly we have to enlarge even further our capabilities. We started already adding some more products this year, and I would expect that to continue on all areas, customer areas. Corporate is a very important business for us and I think that we can do something better there.

What is new for next year is that now that we have restored our profitability we have to focus on operation. We have been growing, particularly in Kuwait over the last few years, we refurbished our branches but now we know that the retail bank is a business that is very profitable, well run, but with the cycles and (unintelligible).

So now is the moment to focus on that and this would be one of our main focus this year. And this is not intended to be done at the sacrifice of building it with losses. We will pause this to try to make sure that we are adding to the bottom line.

In terms of further growth we are definitely interested in expanding our operations in other geographies which links to your questions with the subsidiaries.

The subsidiaries are doing well. Let me go one by one. In the case of Bank of Bank of Baghdad, Iraq, this country continues moving in the direction that we have seen over the last two years has not been affected by the (Arab Springs). We see corporate customers, you know, very anxious to do business there.

We closed in the 2nd Quarter a strategic alliance with a major bank and we have a couple of others also interested in using our infrastructure. So Iraq is moving there. The trick in Iraq is making sure that we do not grow without having the right controls. So good perspective for Iraq, short, medium and long-term.

Jordan is a mature market. Right now is a country that is facing the obvious impact of lower tourism. So economic activity has slowed down which is a stable country in the region, in relative terms, of course, and we like Jordan. We like the business there. It's a well run franchise. We may have a 2012 that may be (calm) but I am confident in the medium and long-term.

Algeria is a market that is growing well that we have an interesting market share in the private sector of the financial sector. We have received recently approvals to keep expanding our branch network. Our management there has shown us that they can break even new branches in a relatively short period of time, within six months which is very good. So we also are comfortable with Algeria, but we are not losing the perspective that North Africa has been going through a transformation recently.

Tunisia is a very small operation that we're having as an (ultra) license. They have done well. They have been under the instruction of not growth but keeping - taking care of our customer base. They have grown a little but we are okay with their prospectus and we think that after the elections Tunisia will be one of the first countries showing how North Africa is going to go and we're well positioned there. We have a good management team. It's a small operation but we don't believe that we have major risks either.

So now is about, you know, looking into also the region in our customers and based on our customers trends to keep expanding. Does it answer your question, Vikram?

Vikram Viswanathan: Yes, thank you, Eduardo, that was very, very clear.

Coordinator: Okay, thank you. We have a question from (Akila Mahesh). Please go ahead, your line is now open.

(Akila Mahesh): Hi, Eduardo, this is (Akila Mahesh) from Standard Chartered Bank. First of all, congratulations on a very good quarter. My question was also on the lines of growth that you covered. Why did you have a good business in Jordan and some of the North African countries? What are your thoughts on actually expanding a little bit more on the GCC? Are you looking at a strategic expansion there?

I realize that GCC is not open to expansion straightaway but they may be option at least acquire a (unintelligible). Any thoughts on that front?

Eduardo Eguren: Okay, thank you. I didn't catch exactly your name but...

(Akila Mahesh): Yes, I'm (Akila Mahesh). I'm the Regional Head of Financial Institutions at Standard Charter Bank.

Eduardo Eguren: Okay, thank you very much for your question. Well, as you can imagine I cannot be specific on projects and names, but definitely we're looking - I have stated in the last few quarters that we have always been looking at opportunities. We have a balance sheet, we have the support of a strong shareholder base, we enjoy I would say comfort from our central bank that we can do new...

The region is an attractive region. If you zoom out of the circumstances of this year and even next year the demographics of the regions are right. The wealth creation in the region is fine. There is room for us to grow and we want to grow and we will grow.

North Africa right now clearly is having some transformation and we want definitely to keep our presence there in a safe way but also growing with prudence. There are other areas in the region that we are looking. We need to position ourselves in large franchises but we will come to that at the right time and we definitely look at an organic window as a clear option to grow but only after we have good performance in organic terms.

Right now we - I think that we can claim that our organic performance is solid so we can go to inorganic options with comfort.

(Akila Mahesh): Thank you.

Coordinator: Thank you. The next question is from (Victor Lowe), your line is open. Please go ahead.

(Victor Lowe): Hi, good afternoon, thank you very much for the presentation. I have three questions, if I may. The first one is dividend payments, whether or not you still think that the bank is actually going to be making dividend payments to the parent sometime next year.

The second question is regarding the outlook for NPLs. I heard about what you said about Q3 perhaps being a one-off event, and I was wondering if you could provide a little bit of guidance?

And the third one is can you provide a little bit of color in terms of renegotiations/restructurings in Kuwait, and more specifically what that means for Burgan Bank? I believe that from memory at the end of 2009 the level of renegotiated loans was actually relatively high. I was hoping you could provide a little bit of color in terms of roughly what it would be at the end of Q3 2011. Thank you.

Eduardo Eguren: Thank you, (Victor). Let me go for clarification, dividend payments is clear, the outlook for NPL is clear. One your third question on renegotiation you're asking about the quarter 3 what is - what we have done in terms of renegotiation of loans?

(Victor Lowe): Not only that but I'm not sure if you could actually provide, for example, some color as to what the stock of renegotiations would be vis-à-vis NPLs. I think from memory at the end of 2009 renegotiated loans were about 284. I'm not entirely sure that there was any disclosure subsequent to that. So I was just trying to identify roughly which way the needle moved.

Eduardo Eguren: Okay, perfect. Okay, let me go one by one. First of all, dividends, clearly we are in a position where we profit, we believe that our shareholders want dividends and we are able to pay some dividends.

We will recommend most likely something to our Board of Directors who are the ones that will approve it and the central bank of Kuwait also need to endorse whatever approval by the Board. But I can tell you (to the crisis) that I will recommend some dividend payments for this year.

Regarding the outlook of NPLs, yes, this - let's not forget that we are in a - we have a strong corporate bank operation and the corporate bank obviously moves a little bit more in spikes. So we consider the NPL growth of this quarter to be unusual because three names are infrequent.

But you have to also bear in mind that our strength both in performance and balance sheet allow us a privilege which is we don't need for optical reasons to make suboptimal decisions in terms of renegotiations with customers when there are problems.

One case, the one in Kuwait, we have been in discussions with one customer for some time. They become, I would say, uncooperative. So we decided to go legal and that - we are not hesitant on doing this, and although this may look like a stain in our literally perfect scorecard for the quarter we have absolutely no doubt, no shivering, right, that this is what we should be doing.

In the case of Jordan, these were two cases; I'm not surprised that in Jordan we have a couple of cases there. One of these cases already entered in renegotiation. We are expecting good news pretty soon. So I don't believe that this is a trend. It's hard to predict movements up or down. I'm confident that the 4th Quarter we may have a net down but only God knows, right?

Regarding renegotiation and stock of renegotiations. We have a portfolio of corporate and private bank and non-performing loans across the group of our

KD220 million. The large majority are in Kuwait, if I'm not wrong. If my memory serves me well it's around 180 million is in Kuwait, 170.

Now, we are permanently dealing with this stock. We have achieved several renegotiations, right? And with good customers that have had problems I'm very - I say this very proudly, right? We'll continue supporting them and renegotiating if they have a solid business proposition, good cash flow projections, even if they look dry in the next few quarters.

So the number of transactions that get renegotiated by quarter, yes, maybe three, four, five, right? But the whole stock of NPL is what it is on a 2.4 billion portfolio. Remember that looks high, but remember that we are not able to remove them from NPL even if they are performing well, until they cancel 50% of their principal.

So the number I can give you is the NPLs, the number of transactions that we restructure per quarter I would say three, four or five of some size and that trend will continue, but I don't expect the cost of credit because of this to move up or down.

(Victor Lowe): Okay, wonderful.

Eduardo Eguren: Was it clear enough, (Victor)?

(Victor Lowe): Yes, thank you for your time.

Coordinator: Thank you. The next question is from Suha Urgan. Please go ahead, your line is open.

Suha Urgan: Hi, this is Suha from Morgan Stanley. A quick question, could you please shed some light on the trends you have seen in terms of cost of funding, particularly close to the end of the 3rd Quarter? We're seeing a pick up across the region and I would be interested to hear your thoughts are regarding next year, 2012. Thank you.

Eduardo Eguren: Okay. Cost of funds, clearly we are moving into an environment in which interest rates if they move they're going to go down rather than up because of what we don't know. We don't run - let me answer your question, but then I want to make a reflection.

So we expect the cost of funds on a like to like basis maybe to go down. On the total mix I'm interested in raising longer term funding because we are preparing ourselves if we move into some inorganic space to have a very strong balance sheet to continue that strong balance sheet.

And if you look into what we call net treasury assets, and this is cash, plus securities, plus you to banks, you from banks, you will note that in the last quarter we went up from KD1 billion to KD1.1 billion. So we are increasing our firepower, if you like it.

So in general the market is probably not going up. There is two forces, one operating against the other. One on hand, the trends in - is normally up, maybe down. On the other hand there is a rising competition for market share will move us into the other direction. So like to like that's the trend. On the other hand, if our cost of funds starts going up it's because we will continue building longer (turners) in our raising of funds.

Now, here my other reflection, I like to discuss spreads and position in terms of interest rates because if cost of funds goes up and also your average interest

rates that you collect from your customers, right, also goes up, you're somehow hedged.

I'm looking right now - I'm feeling very comfortable with our spreads on the deposit side, and I think that we can keep them at least for the next year or so.

On the asset side we are building up, okay? And I would like to make everybody note that we have been able to grow keeping our spreads literally in tact. If you look at the average spreads of the first two quarters of this year on the asset side, it was 2.78% annualized. In the 3rd Quarter we grew at 2.77. So we were literally marginally lower, right?

So net net in terms of what I believe is what your concern is, is whether the margins are affected by the environment. I think that so far we are - we have been able to grow with good balance of risk and pricing and we intend to keep the same pattern in the future.

Suha Urgan: Thank you.

Coordinator: Thank you. The next question comes from (Sabi Alzane), your line is open. Please go ahead.

(Sabi Alzane): Yes, hi, good afternoon, thanks for the conference call. Very, very briefly on - going back to Bank of Baghdad, please can you give us a little bit of more sense why do you expect in the short-term more growth given that their balance sheet has contracted over the first half of the year in total loans given and as well total balance sheet?

And the second question is regarding the growth overall - the growth in profitability. Are you expecting it to continue to come from Kuwait as the

major part of it or are you expecting it from the other markets? Perhaps you touch on that point again. Thank you.

Eduardo Eguren: Thank you. So two basic questions, right? One is Bank of Baghdad perspective and logic for that according to balance sheet evolution, and the second is weight and evolution of Kuwait's participation and profitability. Correct?

(Sabi Alzane): Correct.

Eduardo Eguren: Okay, Bank of Baghdad, the environment in Iraq; I don't need to tell you that is quite simple and still repositioning itself as a country. I don't feel comfortable that we've built bullishly any credit portfolio unless it is very well collateralized and in a condition that we can tolerate in terms of risk.

However, what you must have seen is that our fee income, our transactional levels in our deposit activities have been moving into the right direction. In the short-term I expect that also to be the case. I would love to see some assets being built, but as I said before very cautiously in terms of risk.

And the only way that I see this at this point in time is when solid collaterals and guarantees either onshore or from offshore. So Bank of Baghdad's growth model similar to the - where we are right now and as I said, we have to put more throughput into the engine to keep rolling.

The other thing, before I move to Kuwait, the other thing the trick in Bank of Baghdad is adding customers and we are very much engaged into particularly through our corporate customers to start building a platform later on that we can explode on their workforce. But we haven't really seen that crystalizing.

This will come once we have infrastructure ready. So Bank of Baghdad has many fronts to growth.

Kuwait, Kuwait is clearly the fortress in the group, right? And I keep saying that is a fortress within another fortress which is the Kuwait financial system and economy in general.

I like to see Kuwait in this moment of the cycle be the core of our business. We expect to keep growing. Our market share moves from (unintelligible) 3% in retail, different aspects of retail, to close to 10% in terms of corporate lending, and in some specific spaces of the corporate lending we are around 15% of the market.

So we have room to grow. So Kuwait has even if the economy is - has limited dimensions we have room to grow for the next two, three years. And after that we will see if we look into other types of - areas of business in Kuwait, but definitely faster growth should be expected out of larger economies and the subsidiaries.

But for the time being Kuwait is our backbone and will remain this for at least a year or two and only in organic positions can move that weight of 60% of the group, as I said, within the next two years. Was it okay?

(Sabi Alzane): Yes, yes, thank you very much. Just a very quick follow-up on Bank of Baghdad. You mentioned initially that the key and the trick as well there is for to have proper controls. Do you feel this is in place? And the second question regarding Kuwait as well is whether the total parts, what you're saying, just to confirm, is that you're expecting the majority of the profit growth to still come over the next two, three years from Kuwait, which makes sense to me. But will you, as a result, retrench from the other markets or are you going to focus

on the other markets where growth prospects beyond Iraq are not looking that great, to me at least.

Eduardo Eguren: Okay, let me - on your two points, the last one I - it's not what I said but let me go in sequence. In terms of controls you have to have an environment in Iraq that is customized for the risk profile of Iraq, infrastructure limitation, securities industry, everything goes later on in the pricing of the services that you deliver, right?

What I'm saying very clearly is we should - we are doing reasonably well. So we cannot afford to drop the ball. So our controls so far have to be designed for the business proposition and size of our business. As we make our business proposition more complex and rich we will have to adjust our processes accordingly and not just internal. External security is a good example of something that we have to be very careful.

Another one, for instance, in Iraq we have an environment where we have our ability that if infrastructure and power goes down each of the branches can continue operating by themselves. Okay? So it's an environment that has its own characteristics, and again, we cannot - it's not in the menu to drop the ball. So that is in the context where I feel controls are important, not because we have control concerns right now.

In terms of the profitability growth, and you mentioned profitability growth from Kuwait, Kuwait will remain being large in our context for the next year or two, that's for sure. And we are very comfortable with that, but I also said that the speed of growth of the subsidiaries in markets that are going eventually faster should also be faster, okay?

So we are not saying that Kuwait business will grow in relative faster or that the weighting of the profitability of Kuwait will grow in the mix. But I expect the - I do not expect to retrench from any franchise at this point in time.

(Sabi Alzane): Understand. Thank you very much.

Coordinator: Thank you, we have no further questions at this time. I will hand the meeting back to you again.

Eduardo Eguren: So okay, Operator. Thank you, Vikram. Thank you, everybody for the time. We, as I said before, our quarter makes us feel comfortable. We look into a 4th Quarter that is without surprises. So I look forward to talk to all of you again in three months from now. Thank you.

Vikram Viswanathan: Thank you, Eduardo. Thank you.

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