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CORPORATE RATING

Al Manar Financing and Leasing Company K.S.C.

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Corporate Rating Report

Al Manar Financing and Leasing Company K.S.C.

Kuwait

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Ref: KW06015COP00-1/12-16

AL MANAR FINANCING AND LEASING COMPANY K.S.C.

Kuwait, 6 December 2016

RATINGS

	Current	Last Changed From	Date
Sovereign			
Long-Term:	**AA-**	A+	Apr 07
Short-Term:	**A1+**	A1	Apr 07
Outlook	**Stable**	-	-
Corporate Rating			
Long-Term	**BB**	BB-	Nov16
Short-Term	**B**	-	-
Outlook	**Stable**	Positive	Nov 16

FINANCIAL HIGHLIGHTS

USD (mn) / KWD (mn)	H1 2016 USD	H1 2016 KWD	2015 KWD	2014 KWD
Net Financing Income	5.2	1.6	3.2	3.6
Non-Financing Income	1.2	0.4	0.5	0.5
Operating Expenses	2.6	0.8	1.9	1.7
Net Profit / Loss	3.4	1.0	1.6	2.2
Total Assets	178.6	53.9	53.8	45.2
Net Financing Rec.	115.8	34.9	37.7	31.6
Total Debt	48.7	14.7	14.3	6.9
Total Equity	121.6	36.7	35.7	35.6
Exchange Rate: USD/KWD		*0.302*	*0.304*	*0.293*
NPFR / Financing Receivables		11.43	9.93	11.08
FR-Loss Reserve / NPFR		90.50	90.11	86.51
Total Equity / Total Assets		68.08	66.30	78.84
Leverage		0.47	0.51	0.27
ROAA (%) *Annualised*		3.81	3.17	4.54
ROAE (%) *Annualised*		5.67	4.41	6.39

RATINGS DRIVERS

Supporting the Rating

- Comfortable debt service ability, supported by collection of finance receivables; well matched maturity profile.
- Sound quality of the financing receivables book, notwithstanding the increase in non-performing finance receivables (NPFRs), high and improving loss coverage.
- Strong growth in the finance receivable book in 2015, although this has moderated in line with the slowdown in the consumer finance market.
- Good net profitability, notwithstanding the decline of profitability ratios; some improvement was seen in H1 2016.

Constraining the Rating

- Very small balance sheet and modest market share in the Kuwait consumer financing sector.
- Higher NPFRs and NPFR ratio at end H1 2016, compounded by the fall in gross financing receivables.
- Very limited and concentrated lender base, as well as a fairly high level of encumbered assets.
- Narrow range of business model and declining financing differential due to high competition.

RATING RATIONALE

Capital Intelligence Ratings (CI Ratings or CI) upgrades Al Manar Financing and Leasing Company K.S.C.'s (Al Manar) Corporate Long-Term Rating to 'BB' from 'BB-', while maintaining the Short-Term Rating at 'B'. The upgrade is largely underpinned by the Company's sound financial metrics in terms of the improving quality of the financing receivable book, comfortable debt service ability and still good profitability.

Al Manar is a relatively small finance and leasing company in Kuwait. Financing receivable growth was strong in 2015, demonstrating the Company's ability to expand its portfolio. However, growth has moderated substantially this year in line with the slowdown in the consumer financing market. The quality of Al Manar's financing receivable book has improved substantially since 2012, notwithstanding some slippage in H1 2016, and asset quality indicators compare well with those of its peers locally and in the region. While an increase in NPFRs combined with a contraction in the finance receivable book has recently pushed up Al Manar's NPFR ratio, the risk to the Company is

largely mitigated by the improving level of loss coverage. In line with its business model, Al Manar's other assets remained modest in size, comprising of financial investments, Islamic instruments and a small portfolio of investment properties.

Al Manar's ratings are also supported by its good debt service ability and sound liquidity position. Debt repayments are well matched with maturing finance receivables and liquidity has been boosted by an increase in cash balances in both 2015 and H1 2016. Although the Company's funding base is limited, it is, nevertheless, able to increase funding lines from its existing lender. Al Manar operates under an Investment Company licence; it cannot accept deposits and all borrowings are via Islamic structures on an effectively secured basis. Consequently, the higher borrowing has resulted in collateral pledged also increasing, and the consequent rise in the level of encumbered assets remains a constraint on the ratings. That said, CI Ratings notes that the Company has unutilized credit lines to grow its book of finance receivables and build up its book of unencumbered assets.

A further positive for the Company has been rebuilding its capital base (through internal generation) and, retained earnings have returned to positive territory since 2014. An unchanged dividend payment for FY2015, despite the sizeable drop in earnings in that year, is, however, a negative factor. Nonetheless, the Company's leverage remained low despite the sizeable increase in borrowings. While CI normally welcomes low leverage, this can go too far when the company in question is a finance company. Al Manar needs to rebuild its financing receivables portfolio to grow earnings, which will in turn require higher funding availability.

In terms of earnings, in line with its business model, Al Manar's revenue remains largely related to its finance receivable book. The continued narrowing of the financing differential, which is a constraint on the rating, was one of the primary causes of the Company's poor performance in 2015. The other factor was a higher operating expense. A rebound in earnings was seen in H1 2016, supported by the good growth of financing income, although this was offset by a further narrowing of the financing differential. The latter attributed to the increase of funding costs in line with the higher level of borrowings. Stabilising financing differential is, and will remain, a challenge for Al Manar and its peers given the low interest rate environment, as well as the high competition in Kuwait. Competition has increased in recent years with higher interest from the conventional banks.

Al Manar's non-financing income remains fairly modest, reflecting the moderate size of its investments portfolio. Potential volatility impact of its financial investments is thus limited, although impairment in the past contributed to losses at the bottom line. All that said, Al Manar's core activity remained profitable and its profitability ratios at end H1 2016 compared well with its larger peer, as well as other finance companies in the region, notwithstanding the declining trend.

With the upgrade, the Outlook to the rating is revised to 'Stable'.

OUTLOOK

Al Manar's projections have shown an accelerated growth of the finance receivables book in 2016 and 2017, which is to be supported by the availability of funding lines. In this regard, the Company has demonstrated its ability to build up its finance receivables with the increased funding in place in 2015. However, the consumer finance market has slowed substantially since then and the Company's ability to add finance receivables faster than the pace of repayments received has declined in tandem. As a consequence, the net finance receivables book witnessed a contraction of 7.3% in H1 2016, with a further decline in Q3 2016. Earlier growth projections for the finance receivables book and overall asset bases for the full year are, thus unlikely to be met. As for asset quality, this has weakened with increases in NPFRs in both 2015 and H1 2016, compared to the declines seen in previous years. This negative factor is, however, mitigated by the improving and high loss reserve coverage position. This higher provision coverage should provide some buffer to any possible NPFR accretion from the seasoning of the strong growth of finance receivables in 2015. Management anticipates its NPFR ratio at end 2016 will be stable, at almost the same level seen at end H1 2016.

The increase in borrowings is not a major concern as leverage remains low and much lower than the Company's own projections. Al Manar will continue to match its debt repayment with the collection of

its finance receivables. The latter has been, and will remain, the Company's main source of liquidity. Another positive contributor to liquidity was the increase in cash balances in both 2015 and H1 2016.

As for earnings, the major challenge for the Company will be the stabilising the financing differential. Based on projected financing income, the finance income to average net finance receivables is expected to show a steady decline. This has already been seen in the period under review and has been compounded by the rising funding cost, with the financial differential continuing to narrow as a consequence. While this narrowing has been seen at other lenders as well, it means that growing income becomes even more dependent on growing financing volumes.

The net profit at just KWD1.0mn in H1 2016 was some way behind the running rate required to meet the target of KWD2.6mn for the full year. Nonetheless, overall the Company's profitability ratios are anticipated to remain fairly good and compare well with those of its peers.

Prospects for finance receivable expansion going forward remained supported by a growing population and a firming up of economic growth. However, based on achievement thus far, CI is of the opinion that the Company's growth projections for the period to 2020 would appear optimistic and achieving them will be a challenge.

COMPANY HISTORY AND STRATEGIES

History

Al Manar's Major Shareholders at End Q3 2016	%
Investment House (Clients A/C-Qatari Client: QIPCO Holding)	15.91
Wafra International Investment Co (Clients account: PIFSS)	14.58
Financial Assets	13.74
Global Investment House Co (Clients account)	7.00
Other*	51.23
Total	**100.00**

*****_all other shareholders own less than 5%._

Al Manar Financing and Leasing Company K.S.C. (Closed) was established in November 2003. Al Manar's primary area of activity remains the provision of consumer finance, largely for the purchase of automobiles. However, it also makes other types of loans to consumers and provides real estate and vehicle fleet financing for commercial customers. Al Manar conducts its financial services activities in accordance with Islamic Shari'a principles and is regulated and supervised by the Central Bank of Kuwait (CBK). Al Manar's major shareholders have remained very stable for the past few years and the position at end Q3 2016 is shown in the table above.

Business Model

Al Manar's business plan is based on providing financing facilities to the following market segments:

1) **Consumer Financing**

- **Vehicle purchase.** Facilities for the purchase of new vehicles and facilities for the purchase of used vehicles are similar in structure. The main differences are that the tenors of used car facilities will typically be shorter, while the cost to the customer will be marginally higher. Average facility amounts will normally be lower, reflecting the lower cost of a used vehicle. All vehicles are effectively mortgaged in favour of Al Manar by means of registration of the charge at the traffic department, as this prevents transfer of ownership to a third party, while the financing contract remains outstanding. The maximum tenor of financing facilities is 60 months.

- **Cash facilities.** These loans will typically be rather shorter in tenor than vehicle purchase loans. They also tend to be more expensive to the customer. The maximum tenor for such facilities is also 60 months.

2) **Fleet Financing**

   This targets companies and agencies that wish to finance their fleets of vehicles.

3) **Real Estate Financing**

   Real estate facilities are (unlike vehicle purchase or cash loans) offered to Kuwaitis only, either individuals or local companies. All real estate financings require a first mortgage on the property, or (more normally) Ijara contract structure. For income producing investment property, the maximum loan to value level is 65%. Raw land is not financed. The maximum tenor for real estate financing is 15 years.

Management advised that the Company's market share of consumer finance amongst the other finance companies in Kuwait was 10.8% at end H1 2016, with the monopoly of 77.6% still held by Commercial Facilities Co.

Pricing. This varies depending on a number of factors including tenor, nature of asset being financed, and purpose/use of asset, as well as Al Manar's own cost of funds. Comparisons with competitor financing also play a significant role. Despite its partially secured basis, pricing on real estate lending is at the high end because of tenor, while the lowest rates are for vehicles for personal use. However, overall pricing has been declining over the years due largely to high competition and the low interest rate environment in Kuwait.

INVESTMENTS

As in previous years, Al Manar's investments include a portfolio of financial investments − Fair Value Through Income Statement (FVTPL) and Available For Sale (AFS) investments (largely unquoted investments), a book of Islamic instruments, and a small portfolio of investment properties consisting of four fairly small buildings. The latter were acquired from the foreclosure of NPFRs in earlier years. The aggregate fair valuation of these properties has risen in recent years, although there was a marginal decline in H1 2016. One of the older buildings has since been demolished and sold in November 2016.

Overall contribution to revenue from these investments remained modest in terms of dividend and rental income. Potential volatility also remains but is modest in relation to the size of its financial investments portfolio. The Company had taken sizeable impairment against its AFS investment (Qatar Finance House) which resulted in losses in prior years. See related section in the financial analysis for details of these investments.

FUNDING

Al Manar operates under an Investment Company licence; therefore, it cannot accept deposits. Consequently, funding must come from capital or from borrowings. As the Company operates on a Sharia'a compliant basis, all borrowings are via Islamic structures on an effectively secured basis, usually with assignment of financing receivables. The latter has however expanded in recent years to include Islamic instruments, AFS investments and investment properties. Please see *Funding and Liquidity* in the Financial Analysis section (p.13) for further details.

PRINCIPAL BUSINESS STRATEGIES

Since the onset of the regional recession in 2008, the main challenges for Al Manar have been:

- Addressing availability of funding lines to support new lending.
- Dealing with rapidly deteriorating asset quality and the consequent need for substantial additions to loss reserves.
- Cutting the cost base.

Al Manar has achieved a fair measure of success in all the above areas as follows:

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- The main relationship bank (Kuwait Finance House) has increased Al Manar's funding line, which supported the strong growth in 2015 although this has moderated with the slowdown in the consumer finance market in 2016.
- NPFRs have increased in both 2015 and H1 2016 but its NPFR ratio remained at an acceptable level and supported by an improving loss coverage ratio.
- Operating expenses have increased in 2015 and H1 2016 due partly to legal requirements.

The processes above have also been accompanied by a 'back to basics' change in strategy. Available resources are to be redeployed back to Kuwait and, within Kuwait, into the core business. This will mean that previous plans for geographic expansion have been effectively shelved at least for the medium-term. Al Manar is also looking to divest the remaining (14.8%) stake in QFH.

ECONOMIC OUTLOOK - KUWAIT

Operating Environment – Kuwait. While conditions in the domestic economy in 2015 were hardly buoyant, the fall in oil prices has, to date, not led the Kuwaiti government to cut back on long-planned infrastructure. Ironically, the long stand-off between the government and parliament may have been in some ways helpful in that it delayed all project spending, both the necessary and the 'nice to have'.

With the government enjoying a better relationship over the last 18 months or so with what is a rather more cooperative parliament, the finalisation of large new contracts has been moving much more quickly than in the past. While this is an undoubted positive, the longer term impact of lower oil prices has yet to be determined. Although Kuwait has massive foreign investments (and therefore, the ability to keep spending high for several years at least), the pattern in the GCC in the past during periods of weak oil prices has been to protect current expenditures at the cost of investment spending. If this happens, spending on new projects may slow. It should be pointed out, however, that in Kuwait (unlike elsewhere in the GCC) this has not so far happened and project spending has actually been rising.

For Kuwait, an outlook for the economy must always separate both macroeconomic and microeconomic prospects, as the linkage between the two is not as close as would usually be the case in a larger and more diversified economy. To a considerable extent, it is the government and the wider state sector (state-owned oil companies etc.) that provide this linkage, through investment expenditure and transfers via current expenditure on goods, salaries and services, such as the health and educational systems.

Oil prices. From the macroeconomic viewpoint, the Kuwaiti economy continues to show considerable resilience, despite the rapid decline in oil prices in 2015 and early 2016. Prior to mid-2014, governmental revenues had been strong on the back of higher oil prices, although volumes were constrained by adherence to the country's OPEC production quota.

	Brent USD		KEC USD	Breakeven Budget USD
		2009-10	68.60	28.00
2010	80.00	**2010-11**	82.50	47.50
2011	110.91	**2011-12**	109.70	39.10
2012	111.67	**2012-13**	106.60	49.00
2013	111.00	**2013-14**	103.20	50.50
2014	99.02	**2014-15**	81.30	54.00
2015	52.35	**2015-16**	46.05	49.10

The five years to mid-2014 were very good for oil producers in general – at least in price and therefore, income terms (with the post 2012 exception of Iran due to the impact of sanctions). The table above shows the average price for Brent crude, the average price at which Kuwait Export Crude (KEC) has sold since the 2009-10 financial year, together with the estimated price for oil which Kuwait must obtain to balance the governmental budget. It is clear that with oil prices at current levels (end-March 2016 − KEC price just above USD37), Kuwait will no longer continue to post substantial budget surpluses – and is likely to instead post deficits that are significant in terms of percentage of GDP. Given that government spending has been rising – with most of the increases going on entitlements and other transfers rather than (until 2015) into infrastructure – financial flexibility is increasingly limited, although spending can be maintained for several years from what are very substantial accumulated reserves.

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Oil Price Outlook. The IEA forecast (as of March 2016) is for demand to still grow by 1.2 mbpd in 2016, following growth of 1.8mbpd in 2015 to 92.9 mbpd. The outlook is for OPEC production to average around 33 mbpd, while non-OPEC output would average a little over 57 mbpd. Despite the Doha meeting, here are still no signs that OPEC's main producers are willing to significantly cut production to support prices, especially as even current prices are well in excess of their costs of production. With unconventional oil in North America the new 'swing producer', the previous level of control that OPEC maintained over oil prices is much reduced – if not gone forever.

Those OPEC countries with low production costs maximise income by maximising output as any firming of prices will tend to stimulate non-traditional oil production in the US especially (low project cost and low lead time allows production to be ramped up quickly). The US rig count is, however, again dropping for both oil drilling and gas rig numbers; the total as at 8 April was 443, a drop of 545 from a year earlier, as oil process remains and as financial stresses on the smaller shale producers grow. A major source of uncertainty remains future demand from China and (to a lesser extent) India. The IEA has noted some slackening in import demand from China given the slowing economy, while the election of a BJP-led government in India should continue to foster faster economic growth and, therefore rising oil demand – with the current forecast being for growth of 3.7% or 0.15mbpd to 4.1mbpd in 2016. Growth in Chinese demand is forecast to be a lower 2.8% to 11.1mbpd. The role of these two countries is crucial as they are the largest and third largest consumers in Asia.

Current account surplus ended in FY2014-15 – and a larger deficit is expected for FY2015-16. The KEC average for 2014-15 was a much lower USD81.30. Forecasts for 2015-16 are for a further substantial drop. This will have negative implications for the macro-economy and for governmental finances, although Kuwait has massive financial reserves and the ability to continue with its ambitious pipeline of new infrastructure projects, at least in the short to medium-term. Preliminary figures for the 2014-15 fiscal year show an actual deficit of KWD2.72 billion (after transfers to the RFFG) on revenues of KWD24.93 billion – of which oil represented KWD22.5 billion. Revenue was down by 21.6% on fiscal 2013-14, while oil revenue was down by 23.2%. The budget deficit was equivalent to a high 5.62% of GDP.

For 2015-16, the budget was based on an assumed oil price of USD45. At the time the budget was prepared, this (once again) seemed much too low. Subsequent developments make it almost too high. At this level, the forecast deficit would be KWD8.26 billion on revenues of KWD12.1 billion. This would have been be close to the predicted deficit (as approved by parliament) of KWD8.18 billion. An oil price of just over USD60 would have been required to balance the budget. In the event, the actual deficit was KWD4.6 billion or 13.4% of GDP. This figure is, however, before transfers to the RFFG. While deficits of this size may be sustainable in the short-run by drawing on reserves, it is likely that the government will seek to cut expenditure as well as borrow. To some extent, the high subsidies bill will automatically fall as the 'cost' of fuel for power generation, of oil products and of liquid gas, but further economies are being examined. The forecast for the current fiscal year is again a deficit (before RFFG) of 13% of GDP.

Actual revenues and expenditures fiscal year ending March 2016. Overall revenues fell by 45% to KWD13.6 billion. Oil revenues fell by 46% to KWD12.1 billion or 35% of GDP. Non-oil revenues fell by 38%, mainly because of the government decision to defer the remaining KWD1.4 billion reparations due from Iraq until early 2017. This amount more than offset the growth in other sources of non-oil income – these rose by 11%. Government spending fell by 15.0% to KWD18.2 billion. Despite the fall in income, the government maintained its CAPEX plans, with spending rising to KWD2.1 billion (including KWD1.1mn on the government's development plan).

GDP to recover modestly in 2016 and projected to firm up in the medium term. In the second quarter, Kuwait's trade surplus increased for the first time in a year on the back of a moderate recovery in oil prices. Although imports contracted slightly, capital and industrial goods imports posted double-digit growth, which points to improvements in the implementation of the government's development projects. The latter were set up to tackle Kuwait's excessive dependence on oil revenues. As the latter are a drag on public finances, the authorities have resorted to cuts in non-capital spending and subsidies this year, which has drawn criticism from Kuwaiti lawmakers. On 16 October, to deal with heightened domestic political turmoil, Emir Sheikh Sabah al-Ahmad al-Sabah dissolved the Parliament and called for snap election, held on 26 November.

Kuwait's GDP, which contracted by an estimated 1.6% in 2014 and 1.3% in 2015, is expected to recover modestly to 1.3% in 2016. Growth is to be supported by rising oil output, improved production efficiencies and production from the Neutral Zone oilfield to resume in 2017. After years of stalled and delayed projects, prospects have improved with major infrastructure and development projects awarded in 2015. Growth in the non-oil sector should accelerate in parallel. Fiscal and current account positions should gradually strengthen in line with a modest recovery in oil prices and output. Public finance should also be supported by the gradual implementation of spending and revenue reforms, including the implementation of a VAT (expected in 2017). Risks are tilted to the downside. External risks, including spillovers from geo-political tensions and conflict, protracted weakness in global oil price and global financial volatility dampens appetite for private sector investment in PPS. The latter is an area in which the government is increasingly likely to rely on given fiscal constraints. Key domestic risks remain, with the slow implementation of infrastructure projects and parliamentary gridlock that delays critical fiscal reforms.

CONSUMER SECTOR OVERVIEW

As reported by the Central Bank of Kuwait, consumer spending averaged KWD4,263mn from 1964 until 2015, reaching an all time high of KWD14179mn in 2015 up from KWD12,415mn in 2014. While the consumer sector has remained resilient, some indicators have shown some signs of softening and consumer confidence has also eased from a year ago. Household borrowing, which grew at a healthy pace, has moderated noticeably in H1 2016.

The number of Kuwaiti civilian job entrants averaged around 4,100 per quarter over the last four quarters ending Q1 2016. This represents an increase of around 3,000 job entrants from two years ago. Of those, government sector hiring has remained strong with new government jobs doubling to 2,700 a quarter during the same period. New private sector jobs, on the other hand, have retreated slightly and accounted for about a third of new civilian jobs.

According to ARA Research and Consultancy, the overall consumer confidence index stood at 104 in July 2016, after recording its lowest reading in nearly six years at end 2015. Nonetheless, the index was still down by 8.8% y-o-y compared to a year ago in July. Most of the decline has been due to the weakness in the current employment and durable goods components.

That said, the consumer sector is expected to remain a reliable source of growth in Kuwait, although expected to moderate somewhat in 2016 and 2017. The forecast for consumer spending is a lower KWD13,995mn for 2016 and is to remain supported by steady growth in employment and salaries, particularly in the government sector and among Kuwaiti households. Cuts in government wages and salaries are unlikely and subsidy reforms are expected to be very gradual.

OVERVIEW OF THE CONSUMER CREDIT MARKET IN KUWAIT

As in many GCC countries, problems were caused by the pile-up of a large volume of consumer debt by Kuwaiti citizens. With financing that had historically been readily available, and an apparent concentration by borrowers on instalment size rather than overall cost, the result was that in some cases the less financially-aware fell into a debt trap, whereby so much of their monthly income went to debt servicing that the only way to make ends meet was to take out further loans.

The government initially addressed this problem in two ways. The first was to limit both the amount of debt that an individual can take on, and the maximum proportion of his monthly salary that can go in debt service. The second was to arrange relief for those who were already in the debt trap (see next paragraph). The debt cap was set at KWD15,000. The maximum percentage of salary that could go to debt servicing was originally set at 50% and later lowered to 40% (and to 30% of income for pensioners). The maximum loan tenure for non-housing loans was set at five years.

There were also changes to the way in which finance charges could be calculated, which had the effect of lowering the cost to the borrower (and negatively impacting the margins of the lender). The

first adjustment was a requirement that interest is calculated using the declining balance method. The second was to limit the spread over the CBK Discount Rate to 3%, from the previous 4%. Moreover, once the loan rate is set at the outset of the contract, it cannot be altered before five years have passed. This essentially makes consumer lending (now termed 'Personal Medium-Term Loans') fixed rate. Previously, lenders could (and normally would) change rates when the Discount Rate changed. This obviously poses dangers for lenders during periods when interest rates are at historic lows, as any later rises in system rates will compress margins.
Other changes introduced in 2008 included the prohibition of loan structures that included final balloon payments or loans that were repaid by new 'top up' loans – both previously had had the effect of extending the life of a loan. Such sudden changes caused (and subsequently continued to cause) transition shocks for consumer lenders, as pre-March 2008 facilities reached the balloon repayment point.

Between the regulatory changes and the effects of the economic downturn, the result was a fall in overall consumer/personal lending volumes in the market as a whole. These fell by 14% over the 2007-10 period, but began to recover, rising by 8.7% in 2011, and then by a further 2.4% and 6.3% in 2012 and 2013, respectively.

Threat from the Banks. Kuwait was unusual in that at one time a reasonably large proportion of consumer lending was provided by non-banks with investment company status, while in other GCC countries, the banks were always much more active in this area. Following the crisis (and in some cases even before), there was a shake-out, and a number of providers either exited the business, or cut back their volumes considerably, in some cases due to pressure on funding. Given their lower funding costs, increased competition from the banks will always remain a threat to the business model of the remaining non-bank lenders.

RISK FACTORS

Credit risks:

The credit quality of the Company's finance receivable improved noticeably over the past few years. Al Manar's NPFRs in money terms peaked in 2009 and began to gradually fall from 2010 onwards. In 2013, the Company wrote off a substantial amount of unsecured NPFRs, which contributed to the substantial decline of the NPFR ratio, which fell from 38.9% at end 2012 to 12.6% at end 2013. In 2015, NPFRs increased moderately but with the continued growth of the finance receivable book, Al Manar's NPFR ratio showed a further improvement to 9.9%. In H1 2016 NPFRs rose further and, with the contraction of the finance receivable book, the NPFR ratio climbed back to 11.4%. While an increase of NPFRs was also seen among its peers, the Company's ratio remained higher than its larger competition Commercial Facilities Company (CFC), although the gap between them has narrowed considerably since 2012. A positive factor is the rise in loss coverage, which reached a high level at end H1 2016 compared well with its peers.

Borrowing/funding risks:

As Al Manar cannot have a customer deposit base due to regulatory restrictions, funding is reliant upon bank facilities and other wholesale funding sources, and in this regard, there still remains a general reluctance of banks to lend to the finance companies. Together with the trend towards tighter liquidity in Kuwait (in general and, government sector deposits in particular) due to the impact of the low oil price on the economy, the ability of the Company to have secured an increase to the funding line from its main lender is a positive factor. However, the Company continues to borrow largely on a secured basis and the high level of collateral provided could limit the Company's ability to raise any substantial lines. That said, any new funding would enable the Company to rebuild its finance receivable book, which in turn, is the main type of asset pledged as collateral.

Competitive risks:

While the number of active Sharia'a compliant consumer finance lenders has reduced, there is now an increased interest in this segment by both Islamic and conventional banks. Both have an

advantage in availability and cost of funding. At the same time, growth in the overall market remained constrained by regulations. Increased market share by banks has also amounted to an even more challenging operating environment for non-bank lenders. The Company's share of the overall consumer finance market remained modest and consequently, there is still plenty of room for improvement. Al Manar would need to draw on its experience and expertise to provide a competitive edge in terms of service, approval time, etc.

Profitability Risks:
While the financing receivables business remains profitable for the Company, margins have been declining over the past few years and this continued in 2015 and H1 2016. This trend, however, mirrors that of its peers and the sector, given the high competition and the still relatively low financing/interest rate environment. Contributors to its non-financing income remained with the fees from finance receivable, rental from its investment properties and the fair value gain or loss, as well as dividend income from its financial investments. Overall, this remains modest largely reflecting the moderate size of its investments portfolio.

In 2015 the Company posted much weaker earnings, due to lower financing and non-financing income, together with an increase in operating expense. This sizeable decline in net profit mirrors that of its larger competitor, CFC. Earnings recovered somewhat in H1 2016 on the back of higher financing income (notwithstanding a sharp narrowing of the financing differential) and an increase in non-financing income, which was supported by the fair value gain of FVTPL investments. In addition, operating expenses declined y-o-y, however provisioning increased. The Company is anticipated to remain profitable for the full year 2016 with good profitability ratios, which compare well with its peers. It should be noted that a large part of the losses in previous years were related to the impairment losses of its securities investment portfolio (largely unquoted), which in turn reflected the Company's conservative approach to the valuation of these investments.

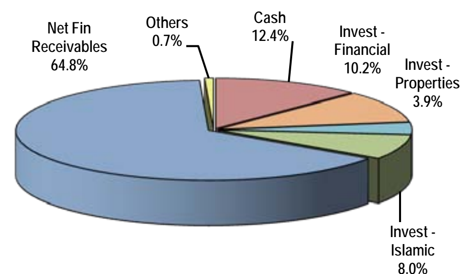
FINANCIAL ANALYSIS

The 2015 consolidated financial statements of Al Manar and its subsidiaries were prepared by management in accordance with International Financial Reporting Standards and audited to International Accounting Standards by Deloitte & Touche, Al Wazzan & Co. The 2015 accounts are unqualified. The following analysis also uses the six months ending June 2016 financials, which are unaudited, but reviewed.

BALANCE SHEET

Strong growth in 2015 but slower substantially in H1 2016, mirroring the trend of consumer spending in Kuwait. In sharp contrast to the decline in 2013 and the sharper contraction in 2014, the Company's asset grew by a strong 19.0% to KWD53.8mn at end 2015. Growth was largely aided by the rebound of financing receivables activities and the higher cash balance. The net finance receivable book reached KWD37.7mn, which represented a higher 70.1% of total assets and constituted the Company's largest asset class, in line with its business model.

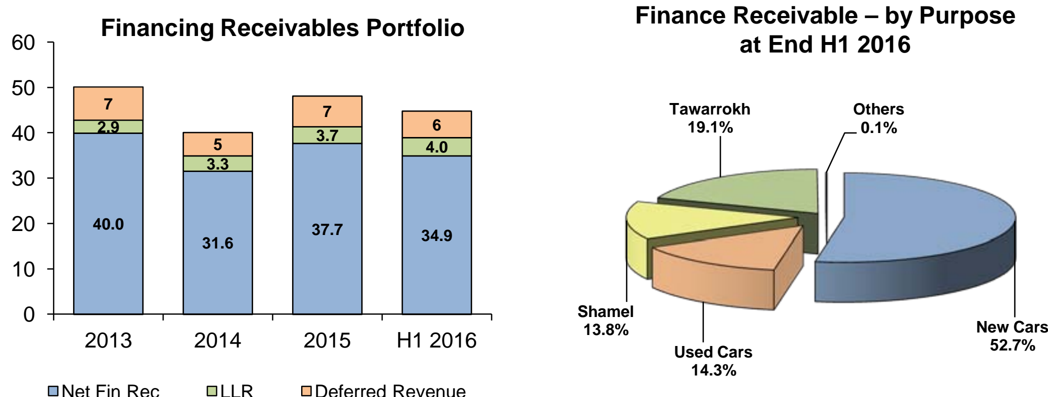
Asset Composition – H1 2016



The Company's financial investments (FVTPL and AFS) were slightly lower, totalling KWD5.5mn (2014: KWD5.9mn) due largely to revaluation loss in view of the decline of the stock market. Its investments in murabaha receivables remained stable at KWD3.0mn, as well as its investment properties at KWD2.1mn. In aggregate, these investments amounted to KWD10.6mn which accounted for another 19.8% of total assets. Cash and cash equivalents more than doubled to KWD5.2mn, which formed another 9.6% of total assets at end 2015. The remaining 0.5% of assets

consisted largely of receivables and prepayments. In line with its lending policy, the Company's assets remained predominately in Kuwait.

Amid the slow economic growth, household borrowings moderated substantially in H1 2016. Al Manar's total assets declined by 0.2% to KWD53.9mn, which was attributed largely to the contraction of the finance receivable book offset by the higher level of cash balances, as well as additional investment in Murabaha receivable. Nonetheless, the Company's asset composition remained fairly stable and the position at end H1 2016 is shown in the pie chart above.



Finance receivable growth rebounded in 2015 before contracting once again in H1 2016. As illustrated in the above bar chart, the sizeable decline of 2014 set back the Company a number of years in terms of growth of the finance receivable book. However, in 2015 the Company's net finance receivables expanded by a strong 19.4%, buoyed by the growth in the consumer sector. However, mirroring the substantial moderation household borrowings in H1 2016, the Company's net finance receivable registered a modest contraction of 7.3% to KWD34.9mn at end H1 2016.

Composition of the finance receivable book remained fairly stable in 2015 and H1 2016. As in previous years, financing of new vehicles constituted the largest proportion of the finance receivable book, although its share of the total has been inching downwards in recent years. At end 2015 and H1 2016 financing of new vehicles accounted for 54.0% and 52.7% of total, respectively. This was followed by securitisation (tawarroukh facilities) at 20.8% (at end 2015) and 19.1% (H1 2016) of total. Securitisation facilities are largely used to finance working capital financing, purchasing of real estate and financing of goods purchases abroad. Financing of used cars came next and, in contrast to new vehicle financing, this financing has inched up in recent quarters and represented 13.0% (at end 2015) and 14.3% (H1 2016) of total. Shamel, or financing of specialty tools (heavy equipments, tractors and buses) accounted for another 12.1% and 13.8% of total and the remainder largely related to financing of electronics, education, medical, etc.

As per information provided by management, the gross finance receivable book declined further in Q3 2016, albeit modestly, by 3.4% to KWD43.3mn. There were no significant changes to the composition of this book.

QUALITY OF THE FINANCE RECEIVABLE BOOK

Sustained improvement of the quality of the financing receivable book in 2015; continued lowering of Non-Performing Finance Receivable (NPFR) ratio, although remained slightly higher than some of its larger peers. In contrast with the declines seen over the past two years, NPFRs rose by 6.2% in 2015 and a faster 8.3% in H1 2016. But with the stronger growth of the finance receivable book in 2015, Al Manar's NPFR ratio declined further to 9.9% at end 2015, which represented the third consecutive year of improvement. However, with the contraction of the finance receivable book and the sharper increase of NPFRs in H1 2016, Al Manar's NPFR ratio climbed back up to 11.4%, which was slightly ahead of the NPFR ratio at end 2014 but lower than that recorded at end 2013. An increase in NPFRs was seen at its larger competitor CFC, however, its NPFR ratio

remained worse. Nonetheless, the latter is moving closer to the quality indicators of its larger peer and is comparable with a number of finance companies in the region.

KWD'000	Gross Finance* Receivable			NPFRs			NPFR Ratio (%)		
	2014	2015	H1 2016	2014	2015	H1 2016	2014	2015	H1 2016
New Cars	23,273	25,975	23,613	1,160	1,386	1,401	4.98	5.33	5.93
Tawarroukh	7,118	10,005	8,574	359	361	634	5.90	5.75	9.90
Used Cars	6,094	6,271	6,404	1,913	1,976	2,098	26.87	19.75	24.47
Others	3,610	5,895	6,228	439	389	324	12.18	6.61	5.20
Total	**40,095**	**48,146**	**44,819**	**3,871**	**4,112**	**4,457**	**9.66**	**8.54**	**9.94**

**information provided by management; gross loans include deferred income and, consequently, the NPFR ratios are lower than that of CI's*

As can be seen from the above table, the largest contribution to the increase in NPFRs in 2015 came from the new cars segment. Totalling KWD1.4mn at end 2015, they accounted for just over a third (33.7%) of total NPFRs at end 2015. Nonetheless, as in previous years, the largest proportion related to NPFRs in the used car segments, which accounted for a high 48.1% of total at end 2015. The largest proportion of NPFRs under Others related to Shamel facilities/financing of specialty tools (heavy equipments, tractors and buses). As shown above, the delinquency ratio for all facilities types has increased in both 2015 and H1 2016. Management anticipates the NPFR ratio for end 2016 to remain at largely the same level at end H1 2016, signalling a stabilisation of credit risk.

The Company did not write off anything in 2015 or H1 2016. The amount written off in 2014 was very modest, at KWD0.2mn. The amount recovered was also lower in 2015, at KWD231K compared to KWD519K in 2014. But in H1 2016 the Company recovered a relatively sizeable KWD227mn compared to the small KWD93K in the same period last year. Included in the finance receivable book were deferred revenue totalling KWD5.8mn and KWD6.7mn at end H1 2016 and end 2015, respectively (2014: KWD5.2mn).

As in previous years, the bulk of NPFRs remained in the 365+days overdue bucket (2015: 69.8%; H1 2016: 74.2%). This was followed by the 91 to 180 days overdue bucket and the remainder in the 181 to 365 days overdue bucket, as shown in the adjoining table.

Aging of NPFRs KWDmn	2014	2015	H1 2016
91-180 Days	0.96	0.66	0.65
181-360 Days	0.68	0.58	0.50
360 + Days	2.23	2.87	3.31
Total	**3.87**	**4.11**	**4.46**

High NPFR loss reserve coverage maintained. With the rise in NPFRs, the Company stepped up provisioning. Finance receivable loss reserve increased by 10.6% in 2015 and another 8.8% in H1 2016. This provided an improved NPFR loss coverage ratio of a high 90.1% at end 2015 and 90.5% at end H1 2016. This ratio compares well with its larger peers and those of other finance companies in the region. This sustained improvement of NPFR loss coverage is a positive factor and supports the Company's ratings. As per management information, the Company also had collateral totalling KWD2.3mn against its non-performing tawarroukh facilities, comprising real estate (38.8%), shares (31.5%) and promissory notes (15.8%) amongst others. The unprovided NPFR to total equity remained a modest 1.14% and 1.15% at end 2015 and H1 2016, respectively.

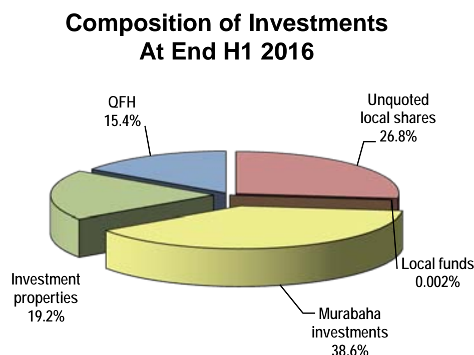
High collateral. The Company held collateral totalling KWD10.0mn (2014: KWD12.4mn) against its finance receivable book at end 2015 and KWD9.6mn, at end H1 2016. At the same time, it should also be noted that vehicles financed (new and used) are registered under the Company's name but this is not recognised by the CBK as acceptable collateral. Management advises that the track record of NPFRs collection in the vehicle financing category remains good, as borrowers can always liquidate the vehicle with the permission from the Company to pay any past due instalments. Nonetheless, CI remains of the view that finance receivable loss reserve (FRLR) in any consumer finance business should be high, to reflect the effective collectable value of security and the intrinsic risk of this type of lending.

A high but fairly stable level of past due but not impaired financing receivables. The Company's PDNI financing receivables all under 90 days was relatively stable at KWD11.5mn (2014:

KWD11.2mn), which represented an equally stable 27.8% (2014: 27.9%) of gross loans (excluding deferred revenues). At end H1 2016 these PDNIs under 90 days totalled KWD13.3mn (H1 2015: KWD13.9mn), which represented a high 34.3% of gross loans, although this was slightly better than the higher 37.9% position in the same period last year.

Investments Type KWDmn	2014	2015	H1 2016
Financial Invests (FVIS & AFS)	5.9	5.5	5.5
Islamic Instruments	3.0	3.0	4.3
Properties	2.1	2.1	2.1
Total	**11.0**	**10.6**	**11.9**

Composition of Investments At End H1 2016



A modest investments book in money terms but an increasing share of the asset base at end H1 2016. The components of the Company's investment portfolio are illustrated in the above table. This portfolio was stable in 2014, but declined marginally to KWD10.6mn at end 2015, which represented 19.8% of total assets, and rose back to KWD11.9mn, which formed a higher 22.1% of total assets at end H1 2016.

Financial investments were largely unquoted. As in previous years, the largest proportion (68.7%) of these investments was classified as financial assets at FVTPL, with the remainder under available for sale (AFS) at end 2015. The latter, consisted largely of the Company's investment in QFH.[1]

As for the FVTPL book, the Company added investments in unquoted foreign shares in 2015 and lowered its holding of unquoted local shares and unquoted local funds. Nonetheless, as in the year earlier, the bulk of the FVTPL book comprised unquoted local shares (same eight individual holdings). Apart from a modest KWD968K of unquoted local shares, which carried a Level 3 (dividend discount model); all the FVPTL investments had a Level 2 fair value hierarchy (market comparatives).

At end 2015, net contributions from financial investments turned negative, totalling KWD276K compared to a modest gain of KWD98K a year earlier. The loss was due largely to the KWD203K negative change in the fair value of FVTPL investments, as well as the KWD156K impairment of AFS investments, compared with a small gain of KWD58K from fair value change of FVTPL investments in 2014. Dividend income was much higher in 2015 but remained modest at KWD83K (2014: KWD40K). In the first six months of 2016 net gain from investments (including dividend income) totalled KWD120K compared to the KWD128K loss recorded in the same period last year.

Small portfolio of Islamic instruments and investment properties with modest revenue contributions. As can been seen in the *Investment Type* table (above), the investments in Murabaha receivable and investment properties were fairly modest in absolute money terms at end 2015, and in aggregate 9.6% and 12% of total assets at end 2015 and H1 2016, respectively. The higher share represented in H1 2016 reflects the increased investment in murabaha receivable in H1 2016. Average yield on the Murabaha contracts improved by 13 bps in 2015 to 1.15% but declined slightly to 1.125% in H1 2016.

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[1] QFH is a company incorporated in Qatar and its principal activity is consumer financing in accordance with the Sharia'a. QFH has remained loss making for the past few years. In 2015, the net loss was, however, much smaller, at QAR489K compared to the KWD55.1mn in 2014. The latter was due largely to the QAR38.2mn provisioning taken against its finance receivable book. In Q3 2016 the Company reported another loss of KWD2.0mn, contributed this time by the large revaluation losses of real estate investments. In line with its 'back to basics' strategy and the redeployment of available resources back to Kuwait, Al Manar has been exploring options for a possible sale of its remaining 14.8% stake. The latter was reduced from 20% stake holding in 2012. In 2015, the Company took an impairment of KWD95k for this investment.

As in previous years, the portfolio of investment properties comprised the same four properties, all located in Kuwait, which are held to earn rentals and/or for capital appreciation. Details as at end H1 2016 are shown in the following table. In aggregate, market value of these properties has been rising over the past few years – from KWD2.5mn in 2012 to KWD2.9mn in 2013 and further to KWD3.4mn in 2014. This rose further to KWD3.7mn before falling back slightly to KWD3.5mn at end H1 2016. The valuations used by CI for 2015 and H1 2016 are the average of two valuations, information provided by the Company. Valuations are generally carried out twice a year, in June and December, by independent valuers who are not related to the Company. Rental income, as in previous years, remained modest in absolute terms at KWD150K in 2015 and KWD65k in H1 2016.

Investment Properties – End H1 2016

Area	Size (sqm)	Number Of Floors	6 Mths Income KWD	Market Value KWD
Al-Mahboola	500	Basement + Ground + 5 Floors + Outside Shop	22,460	936,500
Al-Fahaheel	747	Ground + 2 Floors	5,250	1,232,000
Al-Mangaf	1000	Two Buildings: Building 1 - Ground + 5 Floors Building 2 - Ground + 7 Floors+ Outside Shop	37,110	1,361,500

Management advised that Al Fahaheel was an old building and they had since evacuated the tenants, demolished the building and sold the property as land for KWD1.1mn in November 2016.

FUNDING & LIQUIDITY

Secured borrowing. As previously stated, the Company operates on a Sharia'a compliant basis and consequently, all borrowings are via Islamic structures, on an effectively secured basis with assignment of financing receivables (usually covering 150% of debt amount). At end 2015 and H1 2016 these facilities remained largely in the form of murabaha and wakala payables, while collateral in recent years has expanded to include financial investments, including Islamic instruments and investment properties and even deposits. The latter has since been released.

Encumbered Assets	H1 2016		
	KWDmn	% of Total Portfolio	% of Total Assets
Investment properties	1.4	67.2	2.7
AFS investment	1.4	80.0	2.5
Islamic Instruments	4.3	100.0	8.0
Financing Receivables	27.6	79.0	51.2
Total	**34.7**	**80.6**	**64.5**

(KWDmn)	1mth	1-3 mths	3-6mths	6-12mths	>1yr	Total
2015						

At end 2015 the Company's total borrowings more than doubled to KWD14.3mn, up from KWD6.9mn a year earlier. Collateral pledged jumped in tandem to KWD34.7mn from KWD14.4mn a year earlier. At end 2016 collateral pledged declined marginally to KWD34.7mn, notwithstanding an increase of total borrowings to KWD14.7mn at end H1 2016. As shown in the above table, collateral at end H1 2016 constituted a high proportion of the combined portfolios and also formed almost two thirds of the Company's total assets.

Finance Rec	2.25	3.80	5.00	9.51	27.58	48.14
Borrowings	0.81	1.19	1.69	3.38	8.18	15.25
Gap	**2.77**	**2.61**	**3.31**	**6.13**	**19.40**	
H1 2016						
Finance Rec	2.38	3.89	5.24	8.70	24.61	44.82
Borrowings	0.81	1.24	2.05	3.88	7.59	15.57
Gap	**1.57**	**2.65**	**3.19**	**4.82**	**17.02**	

This high level of collateral could curtail the Company's ability to raise further funds going forward. At the same time, desirability of its remaining unencumbered assets is questionable given the higher KWD4.5mn of NPFRs and its FVTPL and AFS, which are largely unquoted. However, it should be noted that new funding lines would enable the Company to grow its finance receivable book, which in turn would provide additional FRs for collateral.

Sound debt maturity profile, although lender base remained limited and concentrated. The Company's small lender base remained narrow. The bulk (2015: 91.4%, H1 2016: 94.0%) of borrowings remained provided by Kuwait Finance House (KFH) and the small remainder from Rasammel, a structure finance company in Kuwait. The maturity profile of borrowings remained fairly stable in 2015 and H1 2016, with short term borrowings accounting for 46.2% of total at end 2015 and 48.7% at end H1 2016. As shown in the previous table, borrowings remained well matched with the collection of finance receivables with a positive gap in all maturity buckets.

Low leverage for a finance company. In tandem with the trend of debt level and growth of the equity base in the periods under review, the Company's leverage jumped to 0.51% at end 2015, from a very low 0.27 times at end 2014, before declining to 0.47 times at end H1 2016. While CI normally welcomes lower leverage, this can go too far when the company in question is a finance company. Al Manar needs to rebuild its financing receivables portfolio to grow earnings, which will in turn require new funding. The latter will remain in the form of bank borrowings as it is cannot accept customer deposits.

Debt Service Ability KWD'000s	**2015**	**H1 2016**
S/T borrowings	6,976	7,594
Other payables	2,861	1,512
Total S/T Liabilities	**9,837**	**9,106**
S/T Finance Receivable	20,561	20,206
Cash & cash equivalent	5,166	6,665
Total	**25,727**	**26,871**
Cash & S/T FR /ST	**2.61**	**2.95**

Liquidity and debt servicing remained supported by the collection of finance receivables. As in previous years, the Company's holding of liquid assets is limited to its cash balance as its financial assets are largely unquoted. Cash balances, however, more than doubled in 2015 to KWD5.2mn, which represented 9.6% of total assets at end 2015. This rose again in H1 2016 to KWD6.7mn and formed a higher 12.4% of total assets at end H1 2016. If investments in murabaha receivable were to be included, then the Company's liquid asset ratio would improve to 15.2% and a much higher 20.3%, due to the increase in both cash and murahaba receivable. However, as in previous years, a large proportion of the Company's finance receivable is short-term, which constitutes a major component of the Company's effective liquidity. At end 2015 and H1 2016 short-term finance receivables represented a sizeable 38.2% and 37.5% of total assets, respectively. However, with the high borrowings and related short-term portion, CI's cash and quoted investment and short-term gross finance receivable to short-term debt ratio slipped noticeably but remained a good 3.7 times at end H1 2016, down from 4.0 times at end 2015 and a higher 5.2 times at end 2014.

Management advised that at end Q3 2016 the Company's total borrowings had dropped further to KWD12.8mn with KWD5.9mn undrawn from the committed facility with KFH.

Liabilities (times)		
Cash & S/T FR / S/T borrowings (times)	**3.68**	**3.53**

Higher disbursement of finance receivable activities led to a negative operating cash flow in 2015 and, in contrast, the collection of finance receivable turned operating cash flow to positive in H1 2016. Cash from operating activities in 2015 was a net outflow of KWD2.6mn compared to the net inflow of KWD7.5mn a year earlier. This largely contributed to the KWD8.2mn disbursement of finance receivable compared to the KWD8.2mn collection a year earlier. Net cash generated from investing activities remained positive but modest at KWD108K compared to KWD194K. This was supported by the income received from Murahaba as well as dividend income. The higher income in 2014 was largely from the liquidation of murabaha receivable. Cash inflow from financing activities totalled KWD5.4mn due largely to the KWD7.4mn net movement in borrowings, which was partly offset by the KWD1.4mn dividend payment. This contrasted with the net outflow from financing activities a year earlier due to the KWD5.5mn repayment of borrowings. The resultant impact on cash balance was an increase of KWD2.9mn compared to the modest increase of KWD520K in 2015

Due to the slowdown of finance receivable activities, collection of finance receivables totalled KWD2.7mn compared to a disbursement of KWD1.6mn in the same period last year. Accounts payable declined by KWD1.3mn compared to the KWD839K reduction a year earlier. Part of this cash inflow was used to fund additional investment in murabaha receivables in H1 2016. The outflow from investing activities totalled KWD1.2mn compared to a small inflow of KWD59K in the same period last year. Cash from financing activities was a small KWD57K outflow compared to the KWD4.4mn inflow in the same period last year. The positive net movement of borrowings were largely offset by dividend payment of slightly large amount. The net impact on cash, however, was an addition of KWD1.5mn bringing cash balance at end H1 2016 to KWD6.7mn.

CAPITAL BASE

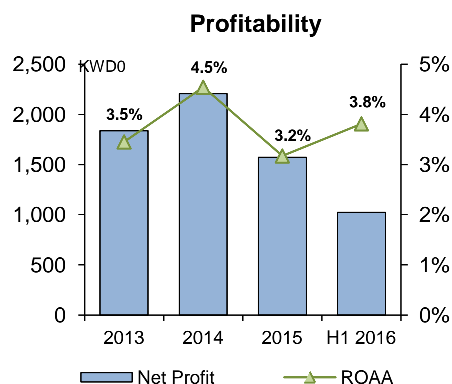
Small equity base which remained boosted by retained earnings. Al Manar has never had a large paid-in equity base and the KWD4.2mn loss posted in 2009 wiped out retained earnings. A small recovery (KWD0.9mn) was seen in 2010, but the Company suffered a further setback with the net loss of KWD3.7mn incurred in 2011. The Company has, however, returned to profit since 2010. A significant 53.6% growth in net profit was achieved in 2013 and, despite a contraction of the financing receivable book in 2014; the Company still posted a healthy 20.1% growth in net profit.

Equity KWDmn	2014	2015	H1 2016
Capital + premium	31.2	31.2	31.2
Reserves	2.7	3.0	3.0
Retained Earnings	1.7	1.5	2.5
Total	**35.6**	**35.7**	**36.7**

In 2015, the Company's equity base was almost flat, due largely to the sizeable decline in net profit, as well as the dividend payment of KWD1.5mn in respect of FY2014. In H1 2016 the equity grew by a 2.9% supported by a sound growth in earnings and no dividend payment in respect of FY2015. The latter was only paid out in Q3 2016. The Company had approved the same dividend payment in respect of FY2015 but with a much lower net profit, a small amount (KWD86K) of this dividend payment was deducted from statutory reserves and paid in Q3 2016.

The Company's internal capital generation was good in previous years with the full retention of net profit. Retained earnings turned positive in 2014. But with the resumption of dividend payments, internal capital generation dropped substantially, especially in 2015. The amount paid in respect of 2015 was the same in absolute terms as for the year earlier but with the much lower net profit in 2015 the payout ratio jumped to a very high 98.3% compared to 70% a year earlier which is a negative factor for the Company.

EARNINGS PERFORMANCE



Gross Income KWD	2014	2015	H1 2015	H1 2016
Financing inc.	4.09	3.77	1.83	1.97
Finance cost	(0.51)	(0.57)	(0.22)	(0.40)
Net Fin Inc	3.58	3.20	1.61	1.57
Net invest inc.	0.10	(0.28)	(0.13)	0.12
Other income	0.43	0.73	0.31	0.24
Total	**4.11**	**3.65**	**1.79**	**1.93**

Contraction of gross income compounded by higher operating expense led to a sizeable YoY decline of net profit in 2015. Gross income registered a modest y-o-y contraction at end 2015 attributed to the further decline in net financing income by 10.8%. Contribution from its investment portfolio also turned negative due largely to the loss in the fair value change of FVTPL financial investments. This lower gross income coupled with a rise in operating expenses by 12.1%, Al Manar's operating profit registered a sizeable contraction of 27.9% in 2015. Notwithstanding the rise in NPFRs, the provision charge was lower at compared to KWD149K a year earlier. At the net level, Al Manar posted a y-o-y contraction of 28.8%.

Better earnings performance in H1 2016; overall still good profitability ratios As shown in the table to the right above, Al Manar's gross income grew in H1 2016 supported by a net gain from its financial investments portfolio as well as other income (largely financing fee income and rental income). The growth financing income was largely offset by the increase in funding costs contribution of non-financing income. Al Manar's return of average assets thus dipped in 2015 to 3.17% before improving to 3.81% in H1 2016 which compares well with those of its larger peer, CFC.

Continued pressure on financing differential constrained growth. Financing income further contracted by 7.8% notwithstanding in solid growth of finance receivable book. This reflect the high competition and the relatively low interest rate environment which saw financing income on average earning assets dropped by a large 118 bps by 9.84% in 2015. At the same time, financing expense rose by 12.7% compared to a decline seen in the previous two years. Funding cost rose by 14 bps which contributed to the narrowing of estimated financing differential for the second consecutive year by 132bps to 4.43%.

In H1 2016, financing income finally rose by 7.6%. But financing expense also increased by a substantial 78.3% in line with the higher debt level which led to a small 2.2% contraction of net financing income in H1 2016. Finance income on average earning assets declined by another 22bps while funding costs rose by 129bps to 5.5%. Consequently financing differential narrowed further by 151bps to 3.8% which continued the declining trend for a number of years. The latter however mirrored that of most of its peers reflecting the high competition in the consumer financing market.

FINANCIAL FORECASTS 2017-2020

The Company has provided CI the same forecast as per last year for the period 2016 to 2020. This forecast was based on a number of assumptions including:

- Increasing the KFH KWD20mn line to KWD33mn in 2018 and on a revolving basis onwards.
- Investments to remain at a stable KWD10.8mn.
- Distributing 5% cash dividend in 2016 and increasing annually by 1% throughout the forecast period.

CAPITAL intelligence

A reiteration of highlights and a summary of the forecast are appended below. CI's views of these projections have been incorporated in the performance outlook on page 2.

Asset Composition KWDmn	2016	2017	2018	2019	2020
Financing Receivables	48.4	60.6	69.6	74.1	78.6
Investments	10.8	10.8	10.8	10.8	10.8
Cash	1.7	1.8	1.5	1.0	1.1
Others*	0.2	0.2	0.2	0.2	0.2
Total	**61.1**	**73.4**	**82.1**	**86.1**	**90.7**

**includes Fixed Assets – 2016 & 2017: KWD40k, 2018 & 2019: KWD35k, 2020: KWD30k*

Increased lending activities, which have been revised upwards from previous forecasts, in line with projected availability of funding. As shown in the adjoining table, the asset base is projected to grow on the back of increased lending volumes. The net financing receivables portfolio is to expand by a high 62.4% over the forecast period, with the highest growth to be achieved in 2016. The latter assumed that the KFH line will be increased up to KWD33mn and on a revolving basis onwards. As availability of additional funding and the consumer finance market conditions are less certain over the longer term, finance receivable growth projections are thus, considerably slower towards the end of the forecast.

KWDmn	2016	2017	2018	2019	2020
Wakala payables	20.5	30.8	37.5	39.8	42.1
*Total liabilities**	*24.2*	*35.2*	*42.6*	*45.3*	*48.8*
Total equity	*37.0*	*38.2*	*39.6*	*40.8*	*42.0*
Leverage	0.65	0.92	1.07	1.11	1.16

**includes other creditors*

The Company's investments portfolio level and composition are projected to be maintained at the current level through the forecast period, although the Company may still liquidate the remaining stake in GFH. Needless to say, these investments will remain subject to potential volatility.

Rising leverage, although remaining low for a finance company. Borrowings to rise in line with the assumption and timing of the increase in the facility line with KFH. A modest increase is projected over the medium-term, which is perhaps a more prudent forecast in view of the certainty of the liquidity in the market over the longer term. With no other new borrowings, the Company's funding base will remained limited and concentrated.

Equity base to grow steady in line with earnings projections and an annual cash dividend payment. While modest as a percentage of share capital, the rate of dividend payment represented a fairly high dividend payout ratio, which averaged at 67.9% of earnings over the forecast period. As shown in the above table, with the rise in borrowings, the Company's leverage is projected to climb over the forecast period. Nonetheless, at 1.2 times at end 2020 it is still fairly low for a finance company.

Liquidity to remain dependent on the payments received from the financing receivable book. With modest cash and no quoted investments, the Company's liquidity, as in the previous years, will remain supported by receipt of payments from the financing receivable book.

Debt service through instalments collection. Based on the above assumptions, the forecast shows that the Company would be able to service all its current and new external financings through its internal cash flow from operation (supported largely by the collection of instalments) to settle borrowings totalling KWD51.4mn, while achieving improving net profit over the forecast period.

Net profit forecast largely in line with the growth of finance receivable book. As shown in the adjoining table, financing income is expected to grow more robustly in the short-term, which largely ties in with the higher growth of finance receivables during the period. Similarly, funding cost is projected rise more sharply with the larger increase of borrowings in the period of 2016 and 2017. Both the factors above will lead to a similar trend for the growth of net financing income.

Profit and Loss KWDmn	2016	2017	2018	2019	2020
Financing Income	*4.47*	*6.03*	*7.16*	*7.88*	*8.21*
Funding Cost	*(0.99)*	*(1.70)*	*(2.26)*	*(2.56)*	*(2.61)*
Net Financing Income	3.48	4.33	4.90	5.32	5.60
Other income	1.17	1.32	1.28	1.24	1.22
Gross Income	4.65	5.65	6.18	6.56	6.82
Operating expenses	(1.71)	(1.81)	(1.90)	(1.98)	(2.04)
Operating Profit	2.94	3.84	4.28	4.58	4.78
Provision	(0.36)	(0.41)	(0.44)	(0.49)	(0.52)
Net Profit	**2.58**	**3.43**	**3.84**	**4.09**	**4.26**
ROAA	**4.61***	**5.09**	**4.93**	**4.86**	**4.81**
ROE	**7.21**	**8.37**	**11.12**	**12.45**	**13.80**

**based on total assets at end Q3 2015 of KWD50.8mn.*

Together with other income – including income from early settlement, rebates from vendors, issue of certificates, deal transfers, rent revenue from real estate and other revenues, and collection from written off portfolio – the Company projects gross income to increase by 21.5% in 2017 before slowing down to 14.0% in 2018, 8.6% in 2019 and 5.3% in 2020. Once again, the slowdown reflects the moderate growth rate in those years.

On the other hand, operating expenses are expected to be kept under control, increasing fairly modestly over the forecast period. Provision charge is also anticipated to remain fairly modest.

Cash flow KWDmn	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
Cash fr operation	2.43	2.43	3.05	3.48	3.39
External funds	2.50	2.50	2.00	2.00	2.25
Total Incoming Cash	**4.93**	**4.93**	**5.05**	**5.48**	**5,64**
Operating expenses	(2.79)	(2.79)	(3.18)	(3.19)	(3.56)
Debt repayment	(1.59)	(1.59)	(2.15)	(2.44)	(2.39)
Total Outgoing Cash	**(4.38)**	**(4.38)**	**(5.33)**	**(5.63)**	**(5.95)**
Net Cash Flow	**0.55**	**0.55**	**(0.28)**	**(0.15)**	**(031)**
Cumulative Cash flow	**1.76**	**1.76**	**1.50**	**1.00**	**1.12**

Net profitability (ROAA) projected to rise over the forecast period growing robustly in 2017 and then slow down for the remaining periods.

Higher debt repayment in the medium to long-term projected to create a small net cash outflow. The adjoining table shows the cash flow position in December of the respective forecast years. Dividend payment is to be paid in March each year.

Cash from operation is projected to remain positive through the forecast period. For the first two years of the forecast, drawdown of funding is expected to exceed debt repayment. This position will reverse from 2018 onwards. The lower cash flow from operations in 2020 compared to prior years largely reflects the slow rate of growth of the finance receivable book. Compounded with the annual increase in operating expenses, the Company projects a small net cash flow deficit from 2018 onwards, which will be met through cash balances.

APPENDIX

SUPERVISION & REGULATION

Al Manar is supervised and regulated by the CBK, the CMA and by the Ministry of Commerce. In the medium-term, Al Manar plans to apply for a listing on the Kuwait Stock Exchange (KSE). In terms of reporting, a range of quarterly returns would be required. In addition, any purchases or sales of treasury stock would have to be reported immediately to the KSE. The Company currently submits monthly reports to the CBK in a manner similar to that of commercial banks and must obtain Central Bank approval and permission before the release of financial information. The supervision department of the Central Bank periodically audits the Company for compliance with regulatory requirements. The regulatory regime in Kuwait includes regular on-site inspections, as well as ongoing off-site supervision.

Al Manar follows the common regulatory requirements for consumer lending in Kuwait. These apply to all lenders, both bank and non-bank. The main areas covered are:

a) Maximum interest rates (related to the Central Bank discount rate)

b) Maximum tenors

c) Repayment ability assessment

As with other consumer lenders in Kuwait, Al Manar must report all outstanding financings to the Ci-Net credit bureau system, Kuwait's credit bureau.

COLLATERAL POLICY

Listed stocks. Acceptable shares should be those of Kuwaiti companies listed on the KSE. The coverage ratio for those shares is a minimum of 200% and the customer is required to sign a contract that gives the Company the right to liquidate those shares at any time without referring to the customer.

Real estate. The real estate should be located in Kuwait. The maximum loan to value is 65% for income producing real estate, while 200% collateral coverage is required for non-income producing real estate. The real estate should be registered as having a first-charge collateral status for the facility and the customer is required to sign a contract that gives Al Manar the right to liquidate at any time without referring to the customer.

Letter of Guarantee. The letter of guarantee should normally be issued by a Kuwaiti bank. On the rare occasions where a guarantee is issued by an overseas bank, prior approval of the Company's board is required. The letter of guarantee should cover 100% of the required loan.

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

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SUMMARY RATIOS	External Audit	AUD 06/2016	AUD 12/2015	AUD 12/2014	AUD 12/2013
A . SIZE FACTORS (KWD 000)					
1 . Total Assets		53,886	53,793	45,201	52,019
2 . Net Financing Receivables		34,946	37,703	31,583	39,977
3 . Total Equity		36,688	35,663	35,635	33,429
4 . Tangible Net-Worth		36,688	35,663	35,635	33,429
5 . Total Debt		14,683	14,303	6,928	12,436
6 . Net Profit		1,025	1,571	2,206	1,836
7 . Assets Under Management					
B . ASSET QUALITY (%)					
8 . Total Assets Growth Rate		0.17	19.01	-13.11	-4.44
9 . FR-Loss Reserve / Financing Receivables		10.35	8.95	9.59	6.67
10 . Non-Performing FR / Financing Receivables		11.43	9.93	11.08	12.60
11 . FR-Loss Reserve / Non-Performing FR		90.50	90.11	86.51	52.96
12 . Unprovided Non-Performing FR / Total Equity		1.15	1.14	1.47	7.60
13 . FR-Loss Provision Charge / Financing Receivables		-0.26	-0.30	-0.43	-2.55
C . CAPITAL AND LEVERAGE					
14 . Total Equity Growth Rate (%)		2.87	0.08	6.60	5.81
15 . Total Equity / Total Assets (%)		68.08	66.30	78.84	64.26
16 . Leverage (Times)		0.47	0.51	0.27	0.56
17 Leverage - Excluding Minority Interest (Times)		0.47	0.51	0.27	0.56
18 . Total Liabilities / Tangible Net-Worth (Times)		0.47	0.51	0.27	0.56
19 . Long-Term Debt / Total Equity (Times)		0.20	0.22	0.09	0.00
20 . Total Debt / Total Equity (Times)		0.40	0.40	0.19	0.37
D . LIQUIDITY AND COVERAGE					
21 Current Ratio (Times)		2.79	3.26	5.24	
22 . Cash + QI + ST Gross FR / ST Debt (Times)		3.65	3.99	5.83	1.72
23 . Cash & Quoted Investments / Total Assets (%)		12.37	9.60	4.95	1.00
24 . Cash & Quoted Investments / Total Liabilities (%)		38.76	28.49	23.37	2.80
25 . Net Financing Receivables / Total Assets (%)		64.85	70.09	69.87	76.85
26 . Net Financing Receivables / Total Liabilities (%)		234.69	242.86	378.64	240.76
E . PROFITABILITY (%)					
27 . Return on Average Assets (ROAA)*		3.81	3.17	4.54	3.45
28 . Return on Average Equity (ROAE)*		5.67	4.41	6.39	5.65
29 . Funding Cost*		5.50	5.41	5.27	5.66
30 . Financing Income on Average Earning Assets*		9.32	9.84	11.02	12.05
31 . Financing Differential*		3.82	4.43	5.75	6.39
32 . Non-Financing Income / Gross Income		18.52	12.35	12.81	11.39
33 . Operating Expenses / Gross Income		40.54	52.61	41.66	35.70
34 . Operating Profit Growth Rate		-33.76	-27.87	-18.60	48.88
35 . Operating Profit / Average Assets		2.13	3.49	4.93	5.53
36 . Risk Provisioning Charge / Operating Profits		-8.78	-7.25	-6.20	-37.03
37 . Realized Income / Gross Income		100.00	100.00	100.00	100.00
38 . Dividend Payout Ratio			98.23	69.99	
F . INVESTMENT					
39 . Market Capitalization (KWD 000)					
40 . Share Price (KWD)					
41 . Earnings Per Share (KWD)		0.003	0.005	0.007	0.006
42 . Earnings Per Share Growth (%)		-34.78	-28.76	20.13	53.57
43 . Price / Earnings Ratio (Times)					
44 . Price / Book Ratio (Times)					
45 . Cash Dividend Per Share (KWD)					
46 . Stock Dividend Per Share (%)					
G . REFERENCE DATA					
. Exchange Rate (Units per USD)		0.302	0.304	0.293	0.282
. Inflation Rate (%)					

*Annualised ratios ofr June 2016

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	06/2016	AUD	AUD	AUD	AUD	Growth (%)				Breakdown (%)			
BALANCE SHEET - ASSETS (KWD 000)	**USD 000**	**06/2016**	**12/2015**	**12/2014**	**12/2013**	**06/2016**	**12/2015**	**12/2014**	**12/2013**	**06/2016**	**12/2015**	**12/2014**	**12/2013**
Cash & Banks	22,093	6,665	5,166	2,235	520	29.02	131.11	329.72	-78.94	12.37	9.60	4.95	1.00
Net Financing Receivables	115,830	34,946	37,703	31,583	39,977	-7.31	19.38	-21.00	1.99	64.85	70.09	69.87	76.85
Other Receivables													
Prepayments & Accruals													
Investments	39,531	11,926	10,626	11,020	11,103	12.23	-3.57	-0.74	-7.33	22.13	19.75	24.38	21.34
Net Fixed Assets	171	52	33	47	62	56.83	-30.74	-24.10	41.78	0.10	0.06	0.10	0.12
Due From Associates													
Goodwill & Other Intangible Assets									-100.00				
Other Assets	982	296	264	316	357	12.10	-16.21	-11.62	-51.26	0.55	0.49	0.70	0.69
TOTAL ASSETS	**178,607**	**53,886**	**53,793**	**45,201**	**52,019**	**0.17**	**19.01**	**-13.11**	**-4.44**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.

BALANCE SHEET - LIABILITIES (KWD 000)	External Audit 06/2016 USD 000	AUD 06/2016	AUD 12/2015	AUD 12/2014	AUD 12/2013	Growth (%) 06/2016	Growth (%) 12/2015	Growth (%) 12/2014	Growth (%) 12/2013	Breakdown (%) 06/2016	Breakdown (%) 12/2015	Breakdown (%) 12/2014	Breakdown (%) 12/2013
Short-Term Debt	24,425	7,369	6,450	3,842	12,436	14.25	67.87	-69.11	-34.60	13.68	11.99	8.50	23.91
Short-Term Payables	3,511	1,059	2,269	1,520	5,134	-53.31	49.27	-70.39	78.41	1.97	4.22	3.36	9.87
Prepayments & Accruals	1,500	453	592	475	471	-23.58	24.79	0.69	-1.07	0.84	1.10	1.05	0.91
Long-Term Debt	24,243	7,314	7,853	3,086		-6.86	154.49			13.57	14.60	6.83	
Long-Term Payables													
Reserve for Retirement Pay & Insurance													
Due To Unc. Subsidiaries & Associates	0	0	0	0	0								
Other Liabilities	3,323	1,003	966	644	548	3.76	50.11	17.51	16.11	1.86	1.80	1.42	1.05
TOTAL LIABILITIES	**57,003**	**17,198**	**18,130**	**9,566**	**18,590**	**-5.14**	**89.52**	**-48.54**	**-18.61**	**31.92**	**33.70**	**21.16**	**35.74**
EQUITY:													
Equity Attributable To Shareholders of Parent Co.													
Share Capital	102,336	30,875	30,875	30,875	30,875					57.30	57.40	68.31	59.35
Share Premium	1,034	312	312	312	312					0.58	0.58	0.69	0.60
Less: Treasury Shares													
Statutory Reserve	5,481	1,654	1,654	1,493	1,266		10.74	17.95		3.07	3.07	3.30	2.43
Voluntary Reserve	4,496	1,356	1,356	1,196	1,244		13.41	-3.84		2.52	2.52	2.65	2.39
General Reserve													
Cumulative Change in Fair Value													
Gain on Sale of Treasury Shares													
Foreign Currency Translation													
Proposed Dividend													
Retained Earnings	8,231	2,483	1,458	1,751	-275	70.29	-16.74	-736.77	-86.97	4.61	2.71	3.87	-0.53
SUB-TOTAL	**121,578**	**36,680**	**35,655**	**35,627**	**33,422**	**2.87**	**0.08**	**6.60**	**5.81**	**68.07**	**66.28**	**78.82**	**64.25**
Minority Interest	25	8	8	8	8					0.01	0.01	0.02	0.01
TOTAL EQUITY	**121,603**	**36,688**	**35,663**	**35,635**	**33,429**	**2.87**	**0.08**	**6.60**	**5.81**	**68.08**	**66.30**	**78.84**	**64.26**
TOTAL LIABILITIES & EQUITY	**178,607**	**53,886**	**53,793**	**45,201**	**52,019**	**0.17**	**19.01**	**-13.11**	**-4.44**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	06/2016	AUD	AUD	AUD	AUD	Growth (%)				% of Average Total Assets			
PROFIT AND LOSS ACCOUNT (KWD 000)	**USD 000**	**06/2016**	**12/2015**	**12/2014**	**12/2013**	**06/2016**	**12/2015**	**12/2014**	**12/2013**	**06/2016**	**12/2015**	**12/2014**	**12/2013**
Interest Income / Financing Income	6,526	1,969	3,774	4,094	4,950	-47.82	-7.83	-17.29	21.04	3.66	7.62	8.42	9.30
Interest Expense / Financing Expense	-1,321	-399	-575	-510	-890	-30.64	12.69	-42.73	-23.59	-0.74	-1.16	-1.05	-1.67
NET INTEREST INCOME / NET FINANCING INCOME	**5,205**	**1,570**	**3,199**	**3,584**	**4,060**	**-50.91**	**-10.75**	**-11.71**	**38.83**	**2.92**	**6.46**	**7.37**	**7.63**
Fees & Commission Income			359	158	392	-100.00	127.42	-59.77	2.88		0.72	0.32	0.74
Rental Income			165	153	143	-100.00	7.90	6.86	11.99		0.33	0.31	0.27
Dividend Income													
Foreign Exchange Income													
Investment Income	399	120	-276	98	-263	-143.67	-381.88	-137.14	49.93	0.22	-0.56	0.20	-0.49
Share of Results of Unc. Subsidiaries & Associates													
Profit on Sale of Unc. Subsidiaries & Associates													
Other Income	784	237	203	118	250	16.66	71.75	-52.78	4.24	0.44	0.41	0.24	0.47
NON-INTEREST INCOME / NON-FINANCING INCOME	**1,183**	**357**	**451**	**527**	**522**	**-20.85**	**-14.37**	**0.89**	**-8.94**	**0.66**	**0.91**	**1.08**	**0.98**
GROSS INCOME	**6,388**	**1,927**	**3,650**	**4,111**	**4,582**	**-47.20**	**-11.22**	**-10.28**	**31.00**	**3.58**	**7.37**	**8.46**	**8.61**
General & Administrative Expense	2,590	781	1,890	1,678	1,608	-58.66	12.61	4.35	7.20	1.45	3.82	3.45	3.02
Lease / Rental Expense													
Depreciation & Amortization			30	34	28	-100.00	-12.73	24.99	48.98		0.06	0.07	0.05
Other Expenses													
OPERATING EXPENSES	**2,590**	**781**	**1,920**	**1,713**	**1,636**	**-59.30**	**12.10**	**4.70**	**7.71**	**1.45**	**3.88**	**3.52**	**3.07**
OPERATING PROFIT	**3,798**	**1,146**	**1,730**	**2,398**	**2,946**	**-33.76**	**-27.87**	**-18.60**	**48.88**	**2.13**	**3.49**	**4.93**	**5.53**
Provisions For Doubtful Financing Receivables	-333	-101	-125	-149	-1,091	-19.74	-15.72	-86.37	41.58	-0.19	-0.25	-0.31	-2.05
Other Provisions													
GROSS PROFIT	**3,464**	**1,045**	**1,604**	**2,249**	**1,855**	**-34.85**	**-28.67**	**21.26**	**53.54**	**1.94**	**3.24**	**4.63**	**3.49**
Extraordinary Items			-14	-20		-100.00	-29.40				-0.03	-0.04	
Taxes	-67	-20	-18	-23	-19	9.67	-20.19	22.17	50.88	-0.04	-0.04	-0.05	-0.04
NET PROFIT (LOSS)	**3,397**	**1,025**	**1,571**	**2,206**	**1,836**	**-34.78**	**-28.76**	**20.13**	**53.57**	**1.90**	**3.17**	**4.54**	**3.45**
APPROPRIATION OF SURPLUS:													
Attributable To Minority Interests													
Dividends			1,544	1,544		-100.00							
Transfer To Equity	**3,397**	**1,025**	**28**	**662**	**1,836**	**3595.38**	**-95.81**	**-63.94**	**53.57**				
Bonus Shares Issued													
Changes In Equity Not Through P&L	**3,397**	**1,025**	**28**	**2,206**	**1,836**	**3595.38**	**-98.74**	**20.13**	**52.59**				

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CORPORATE RATIO FORMULAE - FINANCING, LEASING & INVESTMENT

Ratio	Formula
A SIZE FACTORS	
1 . TOTAL ASSETS	TOTAL ASSETS
2 . NET FINANCING RECEIVABLES	GROSS FINANCING RECEIVABLES - DEFERRED INCOME - PROVISIONS (FRLR)
3 . TOTAL EQUITY	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT CO.+ MINORITY INTEREST
4 . TANGIBLE NET-WORTH	TOTAL EQUITY - GOODWILL - OTHER INTANGIBLE ASSETS
5 . TOTAL DEBT	SHORT-TERM DEBT + LONG-TERM DEBT
6 . NET PROFIT	NET PROFIT
7 . ASSETS UNDER MANAGEMENT	ASSETS UNDER MANAGEMENT
B . ASSET QUALITY (%)	
8 . TOTAL ASSETS GROWTH RATE	CURRENT YEAR TOTAL ASSETS – PREVIOUS YEAR TOTAL ASSETS x 100 PREVIOUS YEAR TOTAL ASSETS
9 . FR-LOSS RESERVE / FINANCING RECEIVABLES	FINANCING RECEIVABLES LOSS RESERVE x 100 FINANCING RECEIVABLES
10 . NON-PERFORMING FR / FINANCING RECEIVABLES	NON PERFORMING FINANCING RECEIVABLES x 100 FINANCING RECEIVABLES
11 . FR-LOSS RESERVE / NON-PERFORMING FR	FINANCING RECEIVABLES LOSS RESERVE x 100 NON PERFORMING FINANCING RECEIVABLES
12 . UNPROVIDED NON-PERFORMING FR / TOTAL EQUITY	NON PERFORMING FR - FR LOSS RESERVE x 100 TOTAL EQUITY
13 . FR-LOSS PROVISION CHARGE / FINANCING RECEIVABLES	FINANCING RECEIVABLES PROVISION CHARGE x 100 FINANCING RECEIVABLES
C . CAPITAL AND LEVERAGE	
14 . TOTAL EQUITY GROWTH RATE (%)	CURRENT YEAR TOTAL EQUITY – PREVIOUS YEAR TOTAL EQUITY x 100 PREVIOUS YEAR TOTAL EQUITY
15 . TOTAL EQUITY / TOTAL ASSETS (%)	TOTAL EQUITY x 100 TOTAL ASSETS
16 . LEVERAGE (TIMES)	TOTAL LIABILITIES TOTAL EQUITY
17 LEVERAGE - EXCLUDING MINORITY INTEREST (TIMES)	TOTAL LIABILITIES TOTAL EQUITY - MINORITY INTERESTS
18 . TOTAL LIABILITIES / TANGIBLE NET-WORTH (TIMES)	TOTAL LIABILITIES TOTAL EQUITY - GOODWILL - OTHER INTANGIBLE ASSETS
19 . LONG-TERM DEBT / TOTAL EQUITY (TIMES)	LONG-TERM DEBT TOTAL EQUITY
20 . TOTAL DEBT / TOTAL EQUITY (TIMES)	SHORT-TERM DEBT + LONG-TERM DEBT TOTAL EQUITY
D . LIQUIDITY AND COVERAGE	
21 CURRENT RATIO (TIMES)	CURRENT ASSETS CURRENT LIABILITIES
22 . CASH + QI + ST GROSS FR / ST DEBT (TIMES)	CASH + QUOTED INVESTMENTS + ST GROSS FINANCINFG RECEIVABLES SHORT-TERM DEBT
23 . CASH & QUOTED INVESTMENTS / TOTAL ASSETS (%)	CASH + QUOTED INVESTMENTS x 100 TOTAL ASSETS
24 CASH & QUOTED INVESTMENTS / TOTAL LIABILITIES (%)	CASH + QUOTED INVESTMENTS x 100 TOTAL LIABILITIES
25 . NET FINANCING RECEIVABLES / TOTAL ASSETS (%)	NET FINANCING RECEIVABLES x 100 TOTAL ASSETS
26 . NET FINANCING RECEIVABLES / TOTAL LIABILITIES (%)	NET FINANCING RECEIVABLES x 100 TOTAL LIABILITIES
E . PROFITABILITY (%)	
27 . RETURN ON AVERAGE ASSETS (ROAA)	NET PROFIT x 100 AVERAGE TOTAL ASSETS
28 . RETURN ON AVERAGE EQUITY (ROAE)	NET PROFIT x 100 AVERAGE TOTAL EQUITY
29 . FUNDING COST	FINANCING EXPENSE x 100 AVERAGE TOTAL DEBT
30 . FINANCING INCOME ON AVERAGE EARNING ASSETS	FINANCING INCOME x 100 AVG. (CASH & BANKS + NET FINANCING RECEIVABLES + BONDS)
31 . FINANCING DIFFERENTIAL	FINANCING INCOME ON AVERAGE EARNING ASSETS - FUNDING COST
32 . NON-FINANCING INCOME / GROSS INCOME	NON FINANCING INCOME x 100 GROSS INCOME
33 . OPERATING EXPENSES / GROSS INCOME	OPERATING EXPENSES x 100 GROSS INCOME
34 . OPERATING PROFIT GROWTH RATE	CURRENT YEAR OPERATING PROFIT – PREVIOUS YEAR OPERATING PROFIT x 100 PREVIOUS YEAR OPERATING PROFIT
35 . OPERATING PROFIT / AVERAGE ASSETS	OPERATING PROFIT x 100 AVERAGE TOTAL ASSETS
36 . RISK PROVISIONING CHARGE / OPERATING PROFITS	PROVISION CHARGE FOR DOUBTFUL FR + OTHER PROVISION CHARGES x 100 OPERATING PROFITS
37 . REALIZED INCOME / GROSS INCOME	REALIZED INCOME x 100 TOTAL INCOME
38 . DIVIDEND PAYOUT RATIO	CASH DIVIDENDS x 100 NET PROFIT

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RATINGS DEFINITIONS

International Issuer Credit Ratings: Foreign Currency and Local Currency

CI's international issuer credit ratings indicate the general creditworthiness of an entity (such as a bank, corporate or sovereign) and the likelihood that it will meet its financial obligations in a timely manner. Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

Local currency ratings are an opinion of an entity's ability and willingness to meet all of its financial obligations on a timely basis, regardless of the currency in which those obligations are denominated and absent transfer and convertibility restrictions. Both foreign currency and local currency ratings are internationally comparable assessments.

Foreign and local currency ratings take into account the economic, financial and country risks that may affect creditworthiness, as well as the likelihood that an entity would receive external support in the event of financial difficulties.

Ratings assigned to banks and corporates are generally not higher than the ratings assigned by CI to the relevant sovereign government. However, it may be possible for an issuer with particular strengths and attributes such as inherent financial strength, geographically diversified cash flow, substantial foreign assets, and guaranteed external support, to be rated above the sovereign.

CI may assign either a public rating or an internal 'shadow' rating to the sovereign. Shadow sovereign ratings are not intended for publication and are used to ensure that sovereign risk factors are adequately reflected in the ratings of non-sovereign issuers.

The following rating scale applies to both foreign currency and local currency ratings. Short-term ratings assess the time period up to one year.

Long-Term Issuer Ratings

Investment Grade

AAA The highest credit quality. Exceptional capacity for timely fulfilment of financial obligations and most unlikely to be affected by any foreseeable adversity. Extremely strong financial condition and very positive non-financial factors.

AA Very high credit quality. Very strong capacity for timely fulfilment of financial obligations. Unlikely to have repayment problems over the long term and unquestioned over the short and medium terms. Adverse changes in business, economic and financial conditions are unlikely to affect the institution significantly.

A High credit quality. Strong capacity for timely fulfilment of financial obligations. Possesses many favourable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions.

BBB Good credit quality. Satisfactory capacity for timely fulfilment of financial obligations. Acceptable credit characteristics but some vulnerability to adverse changes in business, economic and financial conditions. Medium grade credit characteristics and the lowest investment grade category.

Speculative Grade

BB Speculative credit quality. Capacity for timely fulfilment of financial obligations is vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors do not provide significant safeguard and the possibility of investment risk may develop.

B Significant credit risk. Capacity for timely fulfilment of financial obligations is very vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors provide weak protection; high probability for investment risk exists.

C Substantial credit risk is apparent and the likelihood of default is high. Considerable uncertainty as to the timely repayment of financial obligations. Credit is of poor standing with financial and/or non-financial factors providing little protection.

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Short-Term Issuer Ratings

Investment Grade

A1 Superior credit quality. Highest capacity for timely repayment of short-term financial obligations that is extremely unlikely to be affected by unexpected adversities. Institutions with a particularly strong credit profile have a "+" affixed to the rating.

A2 Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.

A3 Strong capacity for timely repayment that may be affected by unexpected adversities.

Speculative Grade

B Adequate capacity for timely repayment that could be seriously affected by unexpected adversities.

C Inadequate capacity for timely repayment if unexpected adversities are encountered in the short term.

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Capital Intelligence appends "+" and "-" signs to foreign and local currency **long term** ratings in the categories from "AA" to "C" to indicate that the strength of a particular rated entity is, respectively, slightly greater or less than that of similarly rated peers.

Outlook – expectations of improvement, no change or deterioration in a bank or corporate rating over the 12 months following its publication are denoted Positive, Stable or Negative. The time horizon for a sovereign rating outlook is longer, at 12-24 months.

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ATTRIBUTES AND LIMITATIONS OF CREDIT RATINGS

Users of Capital Intelligence's (CI) credit ratings should be aware of the following attributes and limitations of the ratings:

- CI's credit ratings are statements of opinion and not statements of fact. They are an independent opinion of the creditworthiness of an entity or obligor either in general (an issuer rating) or with regard to a specific financial obligation (an issue rating).

- CI's credit ratings are intended to provide a relative ranking of credit risk among rated entities and obligations based on fundamental credit analysis and expressed in rating symbols from 'AAA' to 'D'. Reflecting the limited number of gradations, entities or obligations with the same rating may not be of exactly the same credit quality, but they will share substantially similar credit risk characteristics.

- CI's credit ratings are assigned by, and all subsequent rating actions (including upgrades, downgrades and changes in outlook) determined by, rating committees and never by an individual analyst.

- CI's credit ratings indicate the likelihood of default, but they do not indicate a specific probability of default over any given time period.

- CI may initiate credit ratings on issuers without the request of the issuer provided there is adequate public information available to form a credible opinion of the issuer's creditworthiness.

- CI does not audit or verify the accuracy of information obtained from issuers as part of the rating process and may, in some cases, rely on unaudited financial data.

- A credit rating may, at any time, be raised, lowered, placed under review, suspended or withdrawn in accordance with CI's policies and procedures.

- CI may assign private 'shadow' sovereign ratings – internal assessments of sovereign risk that are not intended for publication and are used as an input into other rating assessments. Shadow sovereign ratings may constrain or cap the ratings of other rated issuers within a country. Shadow sovereign ratings may be based on a lower level of information or less detailed analysis compared to public sovereign ratings and, although monitored, may be reviewed less frequently than every six months. They do not represent a full rating opinion.

CI's credit ratings may be used as an analytical input into, but are not a substitute for, investors' own risk management. Investors in particular should be aware that:

- CI's credit ratings focus on one aspect of investment risk – credit (or repayment) risk – and do not explicitly capture loss severity or recovery prospects.

- CI's ratings are not recommendations to purchase, sell, or hold stocks or shares in an institution or particular security.

- CI's ratings do not assess or indicate the likelihood of changes in the market price of rated instruments due to market-related factors such as changes in interest rates or liquidity.

- CI's ratings do not provide an opinion of the liquidity in the market of an issuer's securities.