CAPITAL intelligence

CORPORATE RATING

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

Corporate Rating Report

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

Kuwait

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

Kuwait, 10 December 2018

RATINGS

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

FINANCIAL HIGHLIGHTS

USD (mn) / KWD (mn)	H1 2018 USD	H1 2018 KWD	2017 KWD	2016 KWD
Net Financing Income	4.8	1.5	3.0	3.0
Non-Financing Income	0.9	0.3	0.6	0.6
Operating Expenses	3.1	0.9	1.9	1.7
Net Profit / Loss	2.2	0.7	1.7	1.7
Total Assets	148.6	45.0	49.3	49.6
Net Financing Rec.	103.3	31.3	32.4	32.5
Total Debt	23.6	7.1	6.5	10.9
Total Equity	115.9	35.1	36.0	35.8
Exchange Rate: USD/KWD		*0.303*	*0.302*	*0.306*
NPFR / Financing Receivables		19.59	16.24	16.48
FR-Loss Reserve / NPFR		65.83	74.95	74.58
Unprovided NPFR/Total Equity		6.85	4.18	4.34
Total Equity / Total Assets		77.97	77.76	72.16
Leverage		0.28	0.29	0.39
ROAA (%)		2.96*	3.59	3.25

***Annualised**

RATINGS DRIVERS

Supporting the Rating

- Comfortable debt service ability supported by collection of finance receivables; well matched maturity profile.
- Sound profitability, notwithstanding the decline in H1 2018.
- Well capitalised balance sheet and higher level of unencumbered assets; low debt to equity.

Constraining the Rating

- An increase and high NPFR ratio and reduced NPFR loss reserve coverage in H1 2018; the latter is mitigated by the still modest unprovided NPFR to total equity ratio.
- Very limited and concentrated lender base.
- Low non-financing income reflecting the narrow range of business model.
- Small balance sheet and modest market share in the Kuwait consumer financing sector.

RATING RATIONALE

Capital Intelligence Ratings (CI Ratings or CI) has affirmed Al Manar Financing and Leasing Company K.S.C.'s (Al Manar) Corporate Long- and Short-Term Ratings at 'BB' and 'B', respectively. The ratings are underpinned by the Company's comfortable debt service ability, the higher level of unencumbered assets, the low ratio of debt to equity and sound profitability metrics.

The main constraint to the rating is the increase in the already high non-performing finance receivable (NPFR) ratio as the consequent drop in NPFR loss coverage ratio. The latter remained weaker than that of its largest local competitor as well as the other consumer finance companies rated by CI Ratings in the region. Other constraints include the limited and concentrated lender base, the low non-financing income given its narrow business model and small balance sheet, and the small market share in the Kuwait consumer banking sector.

With the financial metrics of the Company remaining fairly sound, the Outlook is maintained at Stable notwithstanding the still challenging operating environment. However, the weaker quality of the finance receivable book is exerting strong downward pressure on the ratings and a lack of recovery and/or any further deterioration would have an impact on the ratings and/or Outlook.

Al Manar remains a fairly small-scale finance and leasing company in Kuwait. While the consumer financing market has grown, this has largely benefited the banking sector rather than the non-bank financing companies as growth in lending to this segment has been largely related to the purchase and/or renovation of real estate. Consumer durables lending has remained moderate. Against this backdrop, the almost stable net financing book at end 2017 compared well with the contraction seen at many of its peers. With the declining trend in the sector continuing into 2018, net finance receivables at Al Manar also fell at end H1 2018. Asset quality had improved marginally in 2017 which compared favourably against a general weakening at its peers. However, this improvement was reversed in H1 2018 with a rise in the NPFR ratio and a drop in the loss coverage position. The latter remains partly mitigated by the still low unprovided NPFR to total equity ratio. These key metrics at Al Manar were much weaker than its largest competitor CFC and the other consumer finance companies rated by CI in the region, and are the main constraint to the Company's ratings.

Liquidity indicators in both 2017 and H1 2018 are sound and largely supported by a good level of short-term finance receivables. The lender base however remains limited and concentrated, with one lender providing the bulk of funding. The Company continues to borrow on a secured basis. The level of unencumbered assets has however increased as borrowings were repaid. The Company's debt service ability remains more than adequately supported by the collections of finance receivables and the debt maturity profile is well matched with that of its finance receivables, resulting in positive gaps in all maturity buckets. The Company is well capitalised and the debt to equity ratio remains low. Leverage however is considered too low for a finance company as it constrains profitability.

Notwithstanding the slippage in H1 2018, Al Manar's profitability indicators remained sound. Gross income growth was constrained by the slow finance receivable growth in 2017 and also impacted by the net loss in investment income in H1 2018. Rising operating expenses also led to a decline in operating profitability in both periods. Aided by a write-back of provisions, the Company was able to report modest growth in net profit in 2017, the lack of which resulted in a large YoY decline in H1 2018. Nonetheless, Al Manar's profitability ratios compared well with its largest competitor and most of the other consumer finance companies rated by CI in the GCC region.

OUTLOOK

The operating environment remains challenging with still relatively slow economic growth and weak consumer durable demand. With the contraction seen at end H1 2018, Al Manar's finance receivable book could possibly register a decline for full year 2018. This would be in line with the current trend seen at many of its peers. Asset quality will remain an area of focus especially with the sizeable increase in NPFRs in H1 2018. The lack of write-offs of fully provided NPFRs is likely to keep its NPFR ratio high, which compared unfavourably with its peers, and put strong downward pressure on the Company's ratings. While mitigated by the low unprovided NPFRs to total equity ratio, the Company's NPFR loss reserve coverage needs to be improved.

New funding requirements are projected to be modest in line with expected low finance receivable growth. However, if asset growth were to be stronger than currently expected, the required additional funding could be supported by the higher level of unencumbered assets. The profile of its lender base however is likely to remain concentrated due largely to the small number of Islamic banks in Kuwait. Liquidity as in previous years will be supported largely by the short-term finance receivable, which in turn would continue to support the Company's good debt service ability.

The declining financing receivable income is a negative rating factor, although some improvement was seen in H1 2018. Maintaining growth will be a challenge given the slow finance receivable activities. Rental income is projected to rise with the acquisition of another residential property, however overall non-financing receivable income is likely to remain fairly moderate. Volatility relating to its financial investment will also be fairly limited given the small size of its financial investment portfolio. A larger impact would be any further impairment to its QFH investment – something which is likely to continue given the loss making position of QFH in Q3 2018. Nonetheless overall profitability ratios are likely to continue to compare well with its largest domestic competitor and some of the other consumer finance companies rated by CI in the other GCC markets. An upcoming important event is

the listing of the company on the Kuwait Stock Exchange which is expected to be completed by the end of this year or in Q1 2019.

The Company's financial forecasts for the next 5 years have been further revised downwards, reflecting the moderate economic growth, something that is expected to be a norm going forward. The established franchise and expertise will help Al Manar to maintain its position among the non-bank finance company, although the market niche available to NBFCs will remain highly concentrated. Moreover, competition from the banks will also remain high. Composition of the asset base is more than likely to be stable with the finance receivable book comprising the bulk of total assets. Financial investments and investments in Islamic receivables and properties are projected to be maintained at the same fairly low level for the next five years starting from 2019. The Company could still redeploy funds from these investments towards the finance receivable activities if needed, although a rise in the currently very depressed leverage level is more likely. Conversely, a further slowdown of the financing activities could see the Company purchasing additional investments to generate additional income to supplement earnings as witnessed in recent periods.

COMPANY HISTORY AND STRATEGIES

History

Al Manar's Major Shareholders at End Q3 2018	%
Investment House (Clients A/C-Qatari Client: QIPCO Holding)	18.4
Wafra International Investment Co (Clients account: PIFSS)	14.6
Financial Assets	13.7
Others	53.3
Total	**100.00**

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) and Capital Market Authority (CMA). Al Manar's major shareholders have remained very stable over the years and the position at end Q3 2018 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.

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 the high competition from both financial institutions and non financial financing companies.

INVESTMENTS

As in previous years, Al Manar's investments include a portfolio of largely unquoted financial investments, Islamic instruments and investment properties. Some of the investment properties were acquired from the foreclosure of NPFRs in earlier years. With the slowdown of finance receivables activities, the Company has acquired an additional income generating property in recent periods to supplement income.

Nonetheless overall contribution to revenue from these investments continued to be fairly modest in terms of dividend and rental income. Potential volatility is also moderate given the size of the financial investments portfolio. The Company has however been taking sizeable impairment against its FVOCI investment (Qatar Finance House*), which resulted in losses in prior years. Impairment taken in 2017 was higher at KWD191k and with QFH still loss making in Q3 2018, further impairment is likely to be required.

**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 a number of years and remained so in Q3 2018 with a net loss of QAR4.7mn. At end Q3 2018 the Company had assets totalling QAR189.8mn and an equity base of QAR133.3mn. The latter continued to be eroded by the losses incurred.*

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, financial investments and investment properties. Please see *Funding and Liquidity* p.6 for further details.

PRINCIPAL BUSINESS STRATEGIES

The challenges faced by Al Manar remained with asset quality, availability of funding lines and operating efficiencies.

- Asset quality improved marginally in 2017 before weakening in H1 2018 with the increase in NPFRs. The NPFR ratio consequently rose to a high level and the loss coverage ratio also dropped at end H1 2018. The latter however remains mitigated by the low unprovided NPFRs to total equity ratio. The Company has largely a no write-off policy, however management is now considering writing off some of its legacy NPFRs which are fully provided to bring its credit quality metrics more in line with its peers.

- With the slow financing activities, the need for funding is limited. The Company's borrowings dropped noticeably in 2017 but increased moderately in H1 2018. Its main relationship bank remained with Kuwait Finance House but a new lender was added in 2016.

- The overall staff number has actually remained stable in both 2017 and H1 2018. The increase in operating expenses was due largely to regulatory requirements and consequently outside the control of the Company. Nonetheless, Al Manar's overall profitability ratios remained sound and compared well with its largest competitor and most of the consumer finance companies that CI rates in the GCC region.

The Company has applied a 'back to basics' strategy and all available resources have been redeployed back to Kuwait and, within Kuwait, into the core business. That said, with slow growth of new finance receivables businesses the Company has in recent periods invested in some income generating residential properties to provide a stable source of rental income to supplement earnings. Al Manar will also continue to look to divest its remaining (14.8%) stake in QFH.

RISK FACTORS FOR AL MANAR

Credit risks

As stated earlier the marginal improvement in the credit quality of the Company's finance receivable was reversed in H1 2018 with the increase in NPFRs. The weaker credit quality metrics compared unfavourably with its largest peers and the other consumer finance companies rated by CI in the GCC region.

That said, the Company's unprovided NPFR to total equity ratio remained modest. The Company has a no write-off policy and consequently there is a sizeable proportion of legacy NPFRs which are fully provided. Excluding this, Al Manar's NPFR ratio would fall to a much lower level and compare more favourably with its peers. Management is focusing on improving asset quality and in this regard, the Company intends to speed up recovery processes and where possible obtain additional collateral to improve debt recovery prospects.

Borrowing/Funding risks

Al Manar does not 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 remains a general reluctance of banks to lend to the finance companies.

The funding line from its main lender was reduced noticeably due largely to non-utilisation. The addition of a new lender in 2016 was a positive towards widening its lender base, although the facility obtained remained modest at end H1 2018. Another positive factor was the increased level of unencumbered assets with the decline in borrowings. This in turn would aid the Company's plan to raise new funds to support future finance growth. But with the slow finance receivable activities, the need for funding is likely to remain limited.

Competitive risks

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 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.

CFC continues to dominate the non bank consumer finance market in Kuwait while Al Manar has maintained its second place at end Q3 2018. Al Manar will need to continue to draw on its experience and expertise to provide a competitive edge in terms of service, approval time, etc.

FINANCIAL ANALYSIS

The 2017 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 2017 accounts are unqualified. The following analysis also uses the six months ending June 2018 financials, which are unaudited but reviewed.

IFRS 9: The Company has adopted IFRS 9 financial instruments on 1 January 2018 with the exception of requirements of the expected credit loss (ECL) on finance receivables which have been replaced by the provisioning requirements of the CBK – a general provision of 1% where no specific provision is taken. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 (largely the KWD18k additional loss allowance for investment in murabaha receivables) are recognised in retained earnings and reserved as at 1 January 2018.

Note: Management has also provided substantial additional information.

FUNDING & LIQUIDITY

			H1 2018			2017
Encumbered Assets	**KWDmn**	**% of Total Portfolio**	**% of Total Assets**	**KWDmn**	**% of Total Portfolio**	**% of Total Assets**
Investment properties	1.5	100.0	3.3	1.5	100.0	3.2
Investment AFS/FVOCI	1.2	80.0	2.6	1.2	80.0	2.5
Islamic Instruments	4.3	63.1	9.7	4.3	100.0	9.3
Financing Receivables	13.3	42.6	29.6	12.8	39.5	27.7
Total	**20.3**	**45.2**	**45.2**	**19.8**	**42.7**	**42.7**

Sharp decline in borrowings in 2017 with some increase in H1 2018; lender base remained concentrated. Al Manar's total borrowings declined by a substantial 40.7% to KWD6.5mn at end 2017, in line with slow finance receivable growth, but rose moderately by 9.9% in the first half of 2018. In both 2017 and H1 2018 borrowings were made up of only two facilities from two local Islamic banks. KFH remains the Company's main lender. KFH's funding line was reduced in 2017 and the outstanding balance of this facility accounted for the largest proportion of the Company's total borrowings at 73.8% and 80.0% at end 2017 and H1 2018, respectively.

As previously stated, the Company operates on a Sharia'a compliant basis and consequently, all borrowings are via Islamic structures. In line with the decline in borrowings, the amount of encumbered assets has also decreased to form a lower 42.7% of total assets at end 2017, down from 55.5% a year earlier. As with the increase in borrowings in H1 2018, encumbered assets represented a slightly higher 45.2% of total assets as shown in the above table. In aggregate, the percentage of collateral over borrowings rose from 243.3% in 2015, to 253.2% in 2016 and further to 304.6% at end 2017. Some improvement was seen in H1 2018 with the ratio falling but to a still high 285.9%. This high level of collateral could curtail the Company's ability to raise further funds going forward. That said, with the slow finance receivable activities as evidenced by the overall contraction of the finance receivable book at end H1 2018, the financing needs for Al Manar are likely to remain fairly moderate.

(KWDmn)	1mth	1-3 mths	3-6mths	6-12mths	>1yr	Total
2016						
Finance Rec	1.83	2.84	4.03	5.52	18.30	32.52
Borrowings	0.75	1.11	1.75	3.17	4.16	10.94
Gap	**1.08**	**1.73**	**2.28**	**2.35**	**14.14**	
2017						
Finance Rec	1.72	2.97	3.58	6.68	17.52	32.47
Borrowings	0.50	0.94	1.36	1.72	1.97	6.49
Gap						
H1 2018						
Finance Rec	1.70	2.70	3.80	6.28	16.80	31.28
Borrowings	0.46	0.94	0.97	1.45	3.32	7.14
	1.24	**1.76**	**2.83**	**4.83**	**13.48**	

Sound debt maturity profile. The Company's short-term borrowings accounted for 69.6% of total at end 2017 and a lower 44.5% at end H1 2018. As shown in the above table, borrowings remained well matched with the collection of finance receivables with a positive gap in all maturity buckets.

DEBT SERVICE ABILITY

Liquidity and debt servicing remained supported by the collection of finance receivables. Al Manar's liquid asset holdings remained limited to its cash balance as its financial assets are largely unquoted. Cash balances declined in both 2017 and H1 2018 and formed a low 4.6% and 3.6% of total assets, respectively. If investments in murabaha receivables are to be included, then the Company's liquid asset ratio would improve to a satisfactory 13.9% and 13.3% of total assets at end 2017 and H1 2018, respectively. However as in previous years, the Company's effective liquidity is largely supported by its short-term proportion of finance receivables. The latter accounted for a high 46.1% and 46.3% of net finance receivables at end 2017 and H1 2018, respectively, and represented a sizeable 32.3% and 32.2% of total assets, respectively.

Debt Service Ability KWDmn	2017	H1 2018
S/T borrowings	4.52	3.82
Other payables*	2.68	1.54
Total S/T Liabilities	**7.20**	**5.36**
S/T Finance Receivable	14.96	14.48
Cash & cash equivalent	2.12	1.62
Total	**17.08**	**16.10**
Cash & S/T FR /ST Liabilities (times)	**2.37**	**3.00**
Cash & S/T FR / S/T borrowings (times)	**3.77**	**4.21**

**excludes provision for staff indemnity*

As shown in the above table, cash and short-term finance receivables provided more than sufficient cover for both short borrowings and total short-term liabilities in 2017, and these metrics further strengthened at end H1 2018.

Lower operating cash flow in both 2017 and H1 2018. Cash flow analysis is not particularly meaningful for a finance company but for the record, Al Manar operating cash flow was a positive of KWD2.9mn in 2017, down from KWD5.6mn a year earlier due largely to the significantly lower KWD291k cash from finance receivable compared to KWD4.4mn seen in 2016. In H1 2018 operating cash flow remained positive at KWD1.5mn, although lower than the KWD2.0mn in the same period last year due largely to the lower net profit of KWD0.6mn compared to KWD1.4mn in H1 2017.

Net cash from investing activities was a small positive of KWD130k in 2017, comprising largely dividend income and income received from murabaha receivables. In 2016 this was a negative KWD106k due largely to the additional investment in murabaha receivables. In H1 2018 cash flow from investing activities was a net cash outflow of KWD594k due largely to the purchase of an investment property. Cash flow from financing activities was a net cash outflow in both 2017 and H1 2018, reflecting the higher repayment compared to new borrowings, and includes the payment of dividends in both periods.

CAPITAL BASE

Equity KWDmn	2016	2017	H1 2018
Capital + premium	31.2	31.2	31.2
Reserves	3.3	3.4	3.2
Retained Earnings	1.3	1.4	0.7
Total	**35.8**	**36.0**	**35.1**

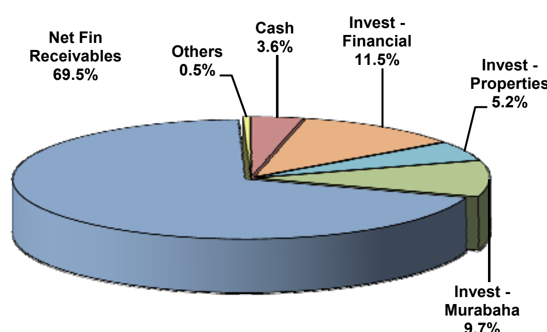
Small equity base; low internal capital generation due to the high dividend payment. Al Manar has never had a large paid-in equity base and the KWD4.2mn loss posted in 2009 wiped out retained earnings. A small recovery (KWD0.9mn) was seen in 2010 but the Company suffered a further setback with the net loss of KWD3.7mn incurred in 2011. The Company has, however, returned to profit since 2010. The Company's internal capital generation was good in previous years with the full retention of net profit but with the resumption of dividend payments in 2014, internal capital generation has dropped substantially.

In 2017 the Company's equity growth remained anaemic at 0.5% in view of the continued high dividend payment in relation to earnings. While the amount of dividend paid in absolute money terms has been the same for a number of years at KWD1.5mn, the net profit in 2016 and in 2017 was not that much higher – both at a fairly stable KWD1.7mn. This equated a very high payout ratio of 98.2% for FYE 2016 and 89.6% for FYE 2017.

BALANCE SHEET

Contraction of asset base in 2017 was due largely to the significant drop in cash and cash equivalent, while a decline in the finance receivables book led to a modest fall in total assets at end H1 2018. Following the 7.8% contraction a year earlier, Al Manar's asset base declined by a slightly slower 6.7% in 2017. The main contributor to the decrease in total assets was the substantial fall in cash and cash equivalent to KWD2.1mn from KWD5.4mn a year earlier. The net finance receivable book on the other hand was almost flat. The latter compared particularly well against the 13.7% contraction seen in 2016 and the declines seen at most of its peers. At end 2017 the net finance receivable book represented a higher 70.1% of total assets.

Asset Composition - H1 2018



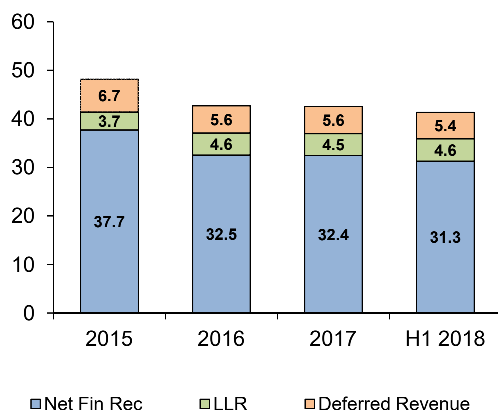
In H1 2018 the Company's total assets declined by a slower 2.7% due largely to the 3.6% contraction in net finance receivables. The net finance receivables book consequently formed a slightly lower 68.1% of total assets at end H1 2018. A further drop in cash and cash equivalent and the decrease in financial assets were more than offset by an increase in the investment properties portfolio (see related sections below for further details). In line with the Company's business model, its assets also remained predominately in Kuwait.

QUALITY OF FINANCE RECEIVABLE BOOK

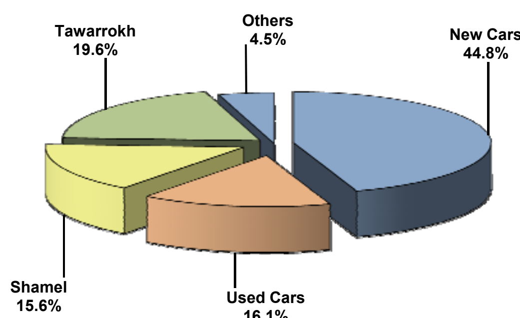
Declining finance receivable book largely in line with its peers. While demand from the consumer sector picked up in 2017, the largest proportion of borrowings was provided by the banking sector and for the purchase and/or repair to private homes. Consumer durable lending remained moderate. At Al Manar the net finance receivable book was almost flat (declining by 0.3%), which compared favourably against the decline seen at most of its peers, with the largest competitor, CFC, recording a decline of 3.1%. At end H1 2018 however Al Manar's net finance receivables fell by 3.3%. H1 2018 information for most of its peers is not available but at end Q1 2018, CFC has also registered another

contraction of 2.4%. The still challenging operating environment given the slow economic growth and the intense competition, the finance receivable book for the non-bank financing companies (NBFCs) is likely to continue to trend downwards for the full year 2018.

Financing Receivables Portfolio



Finance Receivable - by Purpose at End H1 2018



A continual shift from financings for new vehicles to other financings. In 2017 the main growth areas were to financings for heavy equipment and shamil. In H1 2018 the only area of growth was the financings for heavy equipment. Financings to new vehicles declined further in both 2017 and H1 2018 but nonetheless they continued to account for the largest proportion of the finance receivable book. However this has fallen to less than half of gross finance receivables at end 2017 and H1 2018 at 45.8% and 44.8%, respectively. This was followed by tawarroukh financings, which formed a fairly stable 19.1% and 19.6% in the same periods, respectively. Financings for shamil, which is largely the financing for consumer durables, has overtaken financings for used cars to form the third largest proportion of total at 15.6% in both 2017 and H1 2018. Financings for used cars declined to 15.0% of gross financings at end 2017 before rising to 15.5% at end H1 2018. In absolute money terms, the largest contributor to growth in both periods relates to the financings for heavy equipment to private projects. However at end 2017 and end H1 2018 they formed a still modest but rising 4.2% and 4.4% of gross finance receivable, respectively. Other type of financings remained limited.

KWD'000	Gross Finance* Receivable 2016	2017	H1 2018	NPFRs 2016	2017	H1 2018	NPFR Ratio (%) 2016	2017	H1 2018
New Cars	21,904	19,489	18,539	1,686	1,785	2,257	7.7	9.2	12.2
Tawarroukh	8,400	8,113	8,086	2,341	2,233	2,648	27.9	27.5	32.8
Used Cars	6,388	6,512	6,428	765	671	747	12.0	10.3	11.6
Shamil	5,456	6,627	6,447	1,304	1,297	1.371	23.9	19.6	21.3
Others	541	1,817	1,841	16	14	12	3.0	0.8	0.7
Total	**42,689**	**42,558**	**41,341**	**6,112**	**6,000**	**7,035**	**14.3**	**14.1**	**17.0**

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

A rise in NPFRs in H1 2018 and the contraction in the finance receivable book saw the NPFR ratio reaching a high level. Following a jump (48.6%) in 2016, Al Manar's NPFRs declined by 1.8% to KWD6.0mn at end 2017. The NPFR ratio improved modestly to 16.2% but remained much higher than that of the consumer finance companies rated by CI in the GCC region as well as its largest competitor, CFC, in Kuwait. In H1 2018 NPFRs rose by 17.3% and with the decline in finance receivables, Al Manar's NPFR ratio rose to a high 19.6% at end H1 2018.

As shown in the above table, the improvement in 2017 was supported by a decline in NPFRs across most sectors, except for a modest increase in non-performing new car financings. In H1 2018, however, a noticeable rise in NPFRs was seen across the broad of financing activities reversing all the improvement made in 2017. The rise in non-performing new cars and tawarroukh finance

receivables in aggregate represented the bulk (85.7%) of the growth in NPFRs. The NPFR ratios for tawarroukh and shamil as well as the overall finance receivable book have reached a high level at end H1 2018, which weighs heavily on the Company's rating. Management advised that the significant rise in non-performing new car financings was largely related to taxis and supported by the lower demand for taxi services with the decline of expatriates in Kuwait, as well as the delay in payments by the government to taxi companies. The Company is working hard with these taxi companies to collect delayed payments and their sales departments have reduced funding to this sector.

The aging profile of NPFRs improved marginally in H1 2018 after the weakening in 2017. Nonetheless, as shown in the adjoining table the largest proportion of NPFRs remained in the overdue more than 365 days bucket. Concentration remained insignificant as NPFRs were made up of 674 individual transactions in 2017 and 689 transactions at end H1 2018.

NPFRs %	2016	2017	H1 2018
91-180 Days	19.1	6.5	19.0
181-365 Days	33.0	5.1	6.0
365+ Days	47.9	88.4	75.0
Total	**100.0**	**100.0**	**100.0**

In line with the Company's policy, there were no write offs in 2017 and H1 2018. The amount recovered was lower at KWD141k in 2017, down from KWD315k a year earlier, and totalled a modest KWD28k in H1 2018 compared to KWD70k for the same period last year.

A fall in loss reserve coverage at end H1 2018 but remains mitigated by the still modest unprovided NPFR to total equity ratio. With the modest decline in NPFRs and an equally small increase in loss reserve, the Company's NPFR loss reserve ratio inched up to a fairly sound 75.0% at end 2017. While this ratio remained someway behind the full loss coverage of its largest competitor, CFC, it was only just slightly lower than that seen at the other consumer finance companies rated by CI in the GCC region. Most of the coverage ratios of these consumer finance companies have however fallen from more comfortable levels a year earlier.

At end H1 2018 loss reserve rose by a comparatively modest 3.0% and with the sharper increase in NPFRs, the loss coverage ratio fell to a fairly moderate 65.8%. However, as in the previous years this moderate coverage ratio is mitigated by the low unprovided NPFR to free capital which remained modest at 4.2% and 6.9% at end 2017 and H1 2018, respectively. It would take the Company 10.3 months of operating profit in 2017 and a longer 18.2 months of operating profit in H1 2018 to reach full coverage.

Good effective collateral. The Company held collateral amounting to KWD9.5mn on its finance receivable book at end H1 2018, slightly down from KWD9.8mn at end 2017, which was largely in line with the decline in the finance receivable book. Collateral as a percentage of the gross finance receivable remained fairly moderate but stable at 23.0% in both 2017 and H1 2018.

As in previous years, it should be noted that vehicles financed (new and used) which accounted for 61.1% and 60.3% of gross finance receivables are registered under the Company's name. However these vehicles are not recognised by the CBK as acceptable collateral. Consequently, the effective collateral position for NPFRs is far higher as new and used vehicles NPFRs accounted for a high 40.9% and 42.7% of total NPFR at end 2017 and H1 2018, respectively.

Management confirmed 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 (low) effective collectable value of security and the intrinsic risk of this type of lending.

Still large past due but not impaired financing receivables another negative factor of asset quality. Another metric used by CI to determine asset quality is the level of past due not impaired (PDNI) finance receivable under 90 days. At Al Manar these PDNIs rose to KWD15.1mn at end 2017, which represented a high 35.6% of gross finance receivable, up from 30.1% a year earlier. In H1

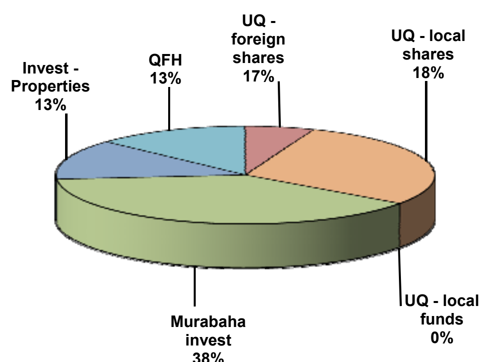
2018, however, these PDNIs declined to KWD13.0mn, although they formed a still high 31.5% of gross finance receivable. The Company classifies the whole account as PDNI when 1 payment is missed at the end of a reporting period. All of these PDNI finance receivables are in the 30 to 90 days overdue buckets.

Low related parties transactions. Finance receivables to related parties declined from KWD111k to KWD49.3k in 2017, which represented a low 0.1% of gross at end 2017, down from 0.3% a year earlier. In 2017 there was however KWD132k due from a related party. This is a new company set up for collections of instalments, and amounts are transferred to Al Manar on a daily basis. In aggregate these related parties transactions equate to a low 0.5% of total equity at end 2017.

Other contingent liabilities and commitments at end 2017 were also fairly limited consisting of KWD5k in letters of guarantee and KWD550k commitment to purchase real estate. The latter was paid in H1 2018.

INVESTMENTS PORTFOLIO

Composition of Investments at End 2017



Investments Type KWDmn	2016	2017	H1 2018
Financial Invests	5.6	5.3	5.2
Islamic Instruments	4.3	4.3	4.4
Properties	1.5	1.5	2.3
Total	**11.4**	**11.1**	**11.9**
% of TI Assets	**23.0**	**24.0**	**26.4**

Fairly stable and modest financial investments book in absolute money terms, however it represents a sizeable and rising share of the asset base. The components of the Company's investments portfolio are shown in the table above and as a percentage of total assets, these investments represented a higher 24% and 26.4% at end 2017 and H1 2018, respectively.

Composition remained fairly stable and the position at end 2017 is shown in the pie chart above. With slow growth of the finance receivable book and the contraction in H1 2018, surplus resources were deployed to Murabaha investments and investment properties. At end 2017 the largest proportion of financial investments (71.2%) consisted of unquoted local and foreign equities with a very small amount in local funds. These financial investments were classified as financial assets at fair value through profit or loss (FVTPL) and they carried a level 2 fair value hierarchy (market comparatives). The remaining (28.8%) financial investments represented its holding in QFH which was classified as financial asset at fair value through OCI. At end H1 2018 the book of financial investments inched down marginally but composition remained similar to that at end 2017.

The investment in Murabaha receivables rose modestly in H1 2018 while the book of investment properties almost doubled. Nonetheless they formed a still modest 9.7% and 5.2% of total assets respectively at end H1 2018. See section below for further details on the investment properties book.

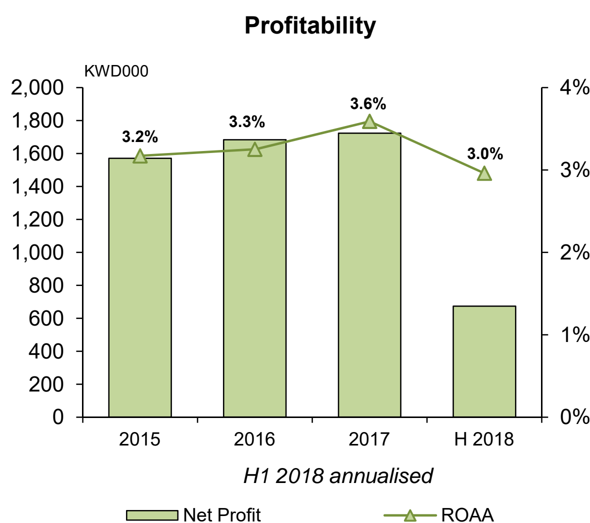
Investment properties are residential buildings located in Kuwait. These properties are also held to earn rentals and/or for capital appreciation. H1 2018 saw an addition of another residential property. Valuations are generally carried out twice a year, in June and December, by independent valuers who are not related to the Company. As shown in the table above, rental income in absolute terms remained fairly modest but rising which in turn would help to supplement overall earnings. In 2016 the Company also recognised a gain of KWD430k from the sale of a piece of land where an old building was demolished.

Investment Properties KWD'000	Valuation	Rental 2017	Rental H1 2018
Mangaf	1,110	75.1	41.9
Mahboola	850	66.8	33.2
Hawally	850	-	23.2
Total		**141.9**	**98.3**

Low leverage for a finance company. With the decline in borrowings, the Company's leverage dropped to an even lower 0.29 times at end 2017, down from 0.39 times in 2016 and 0.51 times in 2015. In H1 2018 the leverage ratio inched down further to 0.28 times. 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 cannot accept customer deposits.

EARNINGS PERFORMANCE

A modest increase in net profit in 2017 aided by lower financing cost and a write back of provisions. Al Manar's gross income in 2017 was fairly flat. The very modest decline in net financing income was largely offset by small growth in non-financing income. But with the increase in operating expenses compared to a decline a year earlier, the Company reported a 7.97% contraction in operating profit. The operating profitability ratio thus inched down, although it remained sound at 3.64%.



Thanks largely to a provision write back in 2017 compared to a provision charge in 2016, Al Manar was able to report a small 2.37% growth in net profit. The Company's ROAA improved to 3.59% in 2017 which was the best compared with its largest competitor and the other consumer finance companies CI rates in the region.

A large y-o-y decline in H1 2018 due mainly to the sharp rise in operating expenses and the lack of provision write back. The Company's gross income in H1 2018 rose by 2.19%, aided largely by a growth of net interest income which offset the contraction of non-interest income. However with the sharp 24.12% increase in operating expenses, the Company posted another 15.37% y-o-y decline in operating profit. Operating profitability ratio consequently fell but remained sound at 3.48% on an annualised basis. Provision for doubtful debts amounted to KWD105k compared to a write back of KWD477k in the same period last year. Al Manar's net profit thus fell by 51.41% y-o-y and the net profitability ratio dropped to 2.96%, but still remained better than its peers and the other consumer companies.

Growth in net financing income in H1 2018 reversing the declining trend of the past few years. Income from its finance receivable activities remained the Company's primary source of revenue. Like

its peers, this income fell in 2017 impacted by the overall slow growth of new financing receivables and the keen competition in this market. Financing income declined by 9.13% in 2017 and notwithstanding the large 42.15% drop in financing expenses, net financing income showed a modest 0.72% decline over 2016. Financing income on average earning assets however improved to 9.36% and together with lower 5.03% cost of funds, the Company's financing differential improved to 4.33% in 2017. While this still lagged its largest competitor, CFC, it compared well with some of the other consumer finance companies that CI rates in the region.

In H1 2018 financing income slipped by a marginal 0.55% y-o-y while interest expense declined by a faster 22.87%, resulting in the 3.43% y-o-y growth in net financing income. This is the first net growth registered for a number of years. However, while finance income on average assets improved further to 9.76%, a sharper rise in the cost of funds to 5.68% caused financing differential to narrow to 4.08% reversing the improvement seen in 2017.

Non-financing income remained modest. The Company's source of non-financing income remained narrow reflecting its fairly moderate investments. As in the previous year, this comprised of fee income from its financing activities, rental income from its investment properties, and dividend income from its financial investments. In 2017 non-financing income rose by a modest 1.68%, down from 4.57% a year earlier. Slower growth was largely attributed to the much lower dividend income of KWD82k, compared to KWD120k a year earlier. A positive factor was the rise in fee and commission and rental income.

In H1 2018 non-financing income was down by 3.99% due largely to the loss from investments, compared to a gain in the same period last year. No further breakdown was available in the interim financial statement. As a percentage of gross income, Al Manar's non-financing income remained moderate at 17.93% in 2017 and a lower 15.79% in H1 2018, which is a reflection of its still narrow business model.

Rising operating expenses. Operating expenses rose by 8.19% in 2017 and a sharper 24.12% in H1 2018 which largely relate to the rise in staff costs, although the number of staff was constant in both periods. With the modest 0.29% decline in gross income, the Company's operating profit registered a contraction of 7.97% in 2017. Notwithstanding growth in gross income, the sharper increase in operating expenses resulted in a 15.37% y-o-y decline in operating profit in H1 2018. The Company's cost to-income-ratio climbed to a higher 51.51% in 2017 and to 54.01% in H1 2018. This cost-to-income ratio was much higher than its largest peer and a number of the consumer finance companies rated by CI in the region.

Write back in 2017. The provision charge in 2017 was a write back of KWD202k compared to an expense of KWD538k. Management advises that these write-backs were not related to specific recoveries but reversal of precautionary provision taken in early in 2017. In H1 2018 there was a provision charge of KWD105k compared to the KWD477k write-back in the same period last year. Further provisioning is required to bring loss coverage ratio close to those of its peers and the other consumer companies that CI rates in the region.

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APPENDIX 1

FINANCIAL FORECASTS 2017-2021

The Company has provided CI a forecast for the period 2019 to 2023. This forecast was based on a number of assumptions including funding available to support sales and an annual dividend payment of 5% of paid capital. Highlights and a summary of the forecast are appended below and CI's views of these projections have been incorporated in the performance outlook on page 2.

Lending activities were further revised downwards reflecting the highly monopolised non bank financing receivable market, as well as keen competition from financial institutions. Nonetheless as shown in the adjoining table, the finance receivable book will remain the Company's largest asset class reflecting no change in its business model. This book is projected to account for 71.1% of total assets in 2019 and rising yearly to form a higher 77.4% by end 2023. The Company has projected annual sales totalling KWD22.0mn in 2019 and rising annually by around 5.0%. However the growth in net finance receivables is projected to peak in 2020 at 11.1% before declining steadily to around 4.0% in 2023. The operating environment in Kuwait is anticipated to remain challenging in the short to medium term with the fairly moderate economic growth projections and the keen competition in the consumer lending market.

Asset Composition KWDmn	2019	2020	2021	2022	2023
Financing Receivables	33.2	36.9	40.2	42.4	44.1
Investments	5.7	5.7	5.7	5.7	5.7
Murabaha & Wakala	4.3	4.3	4.3	4.3	4.3
Invest Properties	1.5	1.5	1.5	1.5	1.5
Cash	1.5	1.8	1.1	1.0	1.2
Others	0.5	0.5	0.5	0.2	0.2
Total	**46.7**	**50.7**	**53.3**	**55.1**	**57.0**

The financial investments portfolio is to stay stable at KWD5.7mn of which KWD1.7 relate to its holding in Qatar Finance House. It is noted the market value of these investments was lower at KWD5.1mn at end 2018. Needless to say these investments will remain subject to potential volatility. Other investments are the murabaha and wakala receivables which will also be maintained at current level and a fairly small book of investment properties. The latter is however projected to decline from the KWD2.3mn level seen at end 2018 as some of these investments are redeployed to its financing receivable activities.

Leverage is projected to remain low for a finance company. Borrowings in terms of wakala payable are projected to rise moderately from 2020 to 2022 and then to decline slightly in 2023. The Company's funding base will remain concentrated given the small number of Islamic banks in Kuwait.

KWDmn	2019	2020	2021	2022	2023
Wakala payables	7.4	10.4	11.7	12.0	11.9
Other creditors	*2.3*	*2.4*	*2.7*	*2.9*	*3.3*
Total liabilities	*9.7*	*12.8*	*14.4*	*14.9*	*15.2*
Total equity	*37.0*	*38.0*	*38.9*	*40.3*	*41.8*
Leverage	**0.26**	**0.33**	**0.27**	**0.26**	**0.36**

No capital increase is projected for the forecast period. Equity base is also projected to grow steadily but modestly in line with earnings projections and the payment of annual cash dividends. While the rate of dividend payment as a percentage of share capital (5%) will remain stable and modest at 5%, it represented a high dividend payout ratio of 88.0% for FYE 2019. This ratio is projected to decline steadily in line with the anticipated annual increase in net profit through the forecast period. The dividend payout ratio is projected to fall to 54.5% by the end FY 2023. As shown in the above table, company's projected leverage will remain low for a finance company.

Liquidity and debt service will remain supported by 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.

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The financial forecast shows that the Company would be able to service all its current and new external financings through instalments collections from its finance receivable book. Overall, the average monthly collection is anticipated to be well above KWD1.5mn (very slightly above KWD2.0mn in 2023), while external debt settlement average repayment is projected to remain below KWD600K monthly.

Net profit faster growth in alternate years. As shown in the adjoining table below, financing income is expected to grow more substantially in 2020 and 2022 notwithstanding increases in funding costs. Net financing income margin as a percentage of financing income is however projected to continue to narrow albeit modestly through most of the forecast period apart for some improvement in 2023.

Profit and Loss KWDmn	2019	2020	2021	2022	2023
Financing Income	*3.29*	*3.91*	*4.08*	*4.72*	*4.89*
Funding Cost	*(0.34)*	*(0.45)*	*(0.56)*	*(0.68)*	*(0.65)*
Net Financing Income	2.95	3.46	3.53	4.04	4.24
Other income	0.90	0.92	0.98	1.03	1.08
Gross Income	3.85	4.38	4.51	5.07	5.32
Operating expenses	(1.70)	(1.77)	(1.84)	(1.92)	(2.00)
Operating Profit	2.15	2.64	2.67	3.15	3.32
Provision	(0.39)	(0.43)	(0.44)	(0.46)	(0.49)
Net Profit	**1.76**	**2.18**	**2.23**	**2.69**	**2.83**
Growth (%)	**n.a.**	**23.4**	**2.5**	**20.8**	**5.8**
ROAA (%)	**n.a.**	**4.44**	**4.26**	**4.94**	**5.05**

Note: figures may not balance due to rounding

Non-financing income stream will remain fairly modest in line with the level of investments. It should be noted that no gain or loss is projected on its FVTPL investments which is unlikely to be the case. That said, volatility is also likely to be moderate given the small size of these financial investments. There is no impairment forecast which the Company may still need to take if QFH continues to be loss making.

In line with the trend of net financing income, gross income growth is projected to grow by 13.8% in 2020 before declining to 3.0% and then increasing by 12.4% in 2023 and 18.0% in 2023. As shown in the table above, operating expenses are projected to increase through the forecast period. Nonetheless operating profit growth is anticipated at 22.8% in 2020 before falling to a low 1.1% in 2021 then climbing to 18.0% in 2022 and falling back to 5.4% in 2023. The Company's anticipates a fairly moderate annual rise in provision charges during the forecast period. Net profit growth trend mirrors that of operating profit. Nonetheless the translated ROAA projected remains at a level sound and improving trend for the forecast period.

APPENDIX 2

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; and

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.

APPENDIX 3

ECONOMIC OUTLOOK

The Kuwaiti economy has been affected by OPEC's decision to cut hydrocarbon production in order to boost prices. Economic performance deteriorated in 2017, with real GDP contracting by 2.5% compared to a growth of 3.5% in 2016. However, the economy has returned to growth in FYE 2018, expanding by 1.3% as the government intensifies its efforts to boost the non-hydrocarbon sectors. CI anticipates real GDP growth to average 3.9% in 2019-21 as oil production cuts start to phase out and the non-hydrocarbon sector resumes robust growth on account of higher capital spending.

Notwithstanding the above, the economic outlook remains subject to downside risks in the short to intermediate term. A renewed period of substantial decline in oil prices and derailed reforms in the non-hydrocarbon sectors could hinder recovery and push the economy into a slowdown. Inflation is also projected to remain manageable at 3.1% in 2019-21, compared to 1.5% in 2018.

Oil dominates the Kuwaiti economy and Kuwait's proven oil reserves of 104 billion barrels are the sixth largest in the world (this includes an estimated 2.5 billion barrel share of reserves in the Saudi-Kuwait neutral zone). Based on the expected production level of 2.83 million barrels a day in 2018, the country's official reserves would last for 88 years – the longest in the GCC region.

The oil-dominated economy however still suffers from major structural imbalances, namely its under-developed non-hydrocarbon private sector compared to other investment grade rating peers. In particular, the country's non-hydrocarbon sector remains dependant on government spending and expatriate labour.

Government Debt: Government debt is estimated at 20.6% of GDP in FYE 2018, most of which is in the form of treasury bonds, and is expected to increase to 26.7% of GDP in FYE 2019. Financing needs have so far been met by drawing down first reserves. The government is considering stepping up external debt issuance. The government debt stock is probably miniscule in comparison with the state's portfolio of domestic and foreign financial assets. However, the true strength of the sovereign's balance sheet is not known for certain given the absence of adequate public disclosure.

External Balances: The current account position is expected to return to surplus in 2018, reaching 2.0% of GDP, as oil exports increase to 1.79 million barrels a day. Kuwait is the only GCC state that posts a sizable income surplus in addition to a trade surplus, as foreign oil companies do not assume an important role in production. At the same time, the large income receipts from the foreign operations and investments of Kuwaiti companies broadly exceed the income payments remitted by foreign companies. Nonetheless, Kuwait has a substantial transfers' deficit owing to expatriates' remittances. The short to intermediate outlook appears more favourable. CI expects the external current account to post surpluses averaging at 3.4% of GDP during 2018-21, therefore enabling the government to continue accumulating assets for future generations and bolstering the country's net external creditor position.

Extracted from CI's sovereign report dated August 2018.

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OIL PRICE OUTLOOK: On 24th September 2018, oil price had reached a four year high of USD81.20 per barrel. This was supported largely by OPEC's promise to keep production steady. In November 2017 OPEC had agreed to continue the production cuts through 2018. The EIA estimates OPEC will produce 32.8mbd in 2018 which is still higher than the average of 32.3mbp in 2015. The US oil production has also increased to 11.6mn bpd making it the world largest crude oil producer. The higher US supply however coincided with the anticipation of a slowing global growth. Investors had also believed that the US sanctions against Iran would lead to supply shortages. By mid November 2018 prices had nonetheless fallen by 18%. Prices will remain volatile reflecting the swings in oil supply. According to the US Energy Information Administration, the worldwide crude oil prices could average US72 barrel in 2019.

Source: publicly available information.

CONSUMER SECTOR OVERVIEW AND OUTLOOK

Consumer spending in Kuwait increased to KWD15.8 billion in 2017 from KWD15.2 billion in 2016. Banks' credit to the households expanded by 7.6% in 2017 to reach KWD11.5 billion making households the top recipient of bank credit in Kuwait for the third year running. The breakdown of household loans showed that around 86% was made up of instalment loans largely long term personal loans for the repair and purchase of private homes. This was followed by consumer loans for the purchase of consumer durables and/or to cover education/medical expenses which formed 11.5% of total household loans at end 2017. Credit card related loans made up another 2.5% of overall household loans in 2017. Loan quality of the household segment also improved in 2017 with both a lower level of NPLs and higher gross loans. NPL ratio for the household segment was maintained at a low 1.7%

As of Q2 2018, consumer spending growth had recovered to near pre-fiscal consolidation era levels. The value of spending on credit and debit cards at POS machines increased by 16.6% which was the strongest in over four years. Total spending including ATM withdrawals also increased by 9.5% y-o-y and was higher than that recorded in the previous quarter.

Underpinning the pick-up in consumer spending was the higher level of confidence, a pick-up in employment and the improving economic condition aided by higher oil prices. Jobs were up by 2.9% y-o-y in June with an increase in hiring of both Kuwaiti and expatriates. Job growth was the strongest in more than two years increasing by 2.5% y-o-y in June. Public sector hiring continues to be the main driver although growth in the private sector remained fairly anaemic. Expat employment growth had slowed sharply over the past three years. In June, it expanded by 3% aided by the steady hiring of both skilled and unskilled labour. Expats accounted for more than 80% of Kuwait's labour force. That said, expats dependents on the other hand continued to decline due largely to the rise in living expenses and the still relatively soft employment market.

Despite a strong month-on-month rise, a softer demand for durable goods and services saw Kuwait's consumer spending index easing to 6.5% y-o-y in July. The consumption of durables was largely flat in July due to the seasonally lower demand during the summer months. Sales of cars, furniture and luxury items declined while spending on electronics picked up. Service consumption rose supported by spending on travel. Spending on non-durables increased in July but growth remained close to flat y-o-y. According to NBK consumer spending index was down by 1% in July.

Going forward consumer spending projection is expected to remain fairly healthy but at a slower pace. Growth is to be supported by the steady expansion in national and expat employment coupled with the low inflation and the higher public spending. Downside risks however remain with the rise in household debt and the weak wage growth.

CAPITAL intelligence

NBFC's consumer finance companies loans and market share at end Q3 2018

Company KWD'000	Loan Portfolio Dec 2016	Loan Portfolio Dec 2017	Loan Portfolio H1 2018	Market Share %
CFC	256,327	248,308	237,787	80.99
Al Manar	32,532	32,444	30,430	10.36
KFIC	17,189	15,626	16,349	5.57
ARZAN	11,119	8,932	8,921	3.04
AAYAN	6,263	1,130	110	0.04
Total	**323,430**	**209,128**	**-4.42**	**100.0**

As can be seen in the above table provided by the Company, the consumer finance market in Kuwait remained dominated by CFC with a fairly stable market share of 81.0%. Al Manar maintained its second position with 10.3% share of the market at end H1 2018.

Source: Publicly available information including CBK and Al Manar.

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

KW60

SUMMARY RATIOS	External Audit	AUD 06/2018	AUD 12/2017	AUD 12/2016	AUD 12/2015
A . SIZE FACTORS (KWD 000)					
1 . Total Assets		45,006	46,269	49,614	53,793
2 . Net Financing Receivables		31,278	32,444	32,532	37,703
3 . Total Equity		35,093	35,981	35,802	35,663
4 . Tangible Net-Worth		35,093	35,981	35,802	35,663
5 . Total Debt		7,137	6,492	10,941	14,303
6 . Net Profit		674	1,723	1,683	1,571
7 . Assets Under Management					
B . ASSET QUALITY (%)					
8 . Total Assets Growth Rate		-2.73	-6.74	-7.77	19.01
9 . FR-Loss Reserve / Financing Receivables		12.89	12.17	12.29	8.95
10 . Non-Performing FR / Financing Receivables		19.59	16.24	16.48	9.93
11 . FR-Loss Reserve / Non-Performing FR		65.83	74.95	74.58	90.11
12 . Unprovided Non-Performing FR / Total Equity		6.85	4.18	4.34	1.14
13 . FR-Loss Provision Charge / Financing Receivables			0.55	-1.45	-0.30
C . CAPITAL AND LEVERAGE					
14 . Total Equity Growth Rate (%)		-2.47	0.50	0.39	0.08
15 . Total Equity / Total Assets (%)		77.97	77.76	72.16	66.30
16 . Leverage (Times)		0.28	0.29	0.39	0.51
17 Leverage - Excluding Minority Interest (Times)		0.28	0.29	0.39	0.51
18 . Total Liabilities / Tangible Net-Worth (Times)		0.28	0.29	0.39	0.51
19 . Long-Term Debt / Total Equity (Times)		0.09	0.05	0.12	0.22
20 . Total Debt / Total Equity (Times)		0.20	0.18	0.31	0.40
D . LIQUIDITY AND COVERAGE					
21 Current Ratio (Times)		3.79	3.31	3.48	3.26
22 . Cash + QI + ST Gross FR / ST Debt (Times)		4.22	3.78	2.96	3.99
23 . Cash & Quoted Investments / Total Assets (%)		3.60	4.58	10.87	9.60
24 . Cash & Quoted Investments / Total Liabilities (%)		16.34	20.61	39.03	28.49
25 . Net Financing Receivables / Total Assets (%)		69.50	70.12	65.57	70.09
26 . Net Financing Receivables / Total Liabilities (%)		346.06	355.31	264.81	242.86
E . PROFITABILITY (%)					
27 . Return on Average Assets (ROAA)*		2.96	3.59	3.25	3.17
28 . Return on Average Equity (ROAE)*		3.80	4.80	4.71	4.41
29 . Funding Cost*		5.68	5.03	6.01	5.41
30 . Financing Income on Average Earning Assets*		9.76	9.36	9.24	9.84
31 . Financing Differential		4.08	4.33	3.23	4.43
32 . Non-Financing Income / Gross Income		15.79	17.93	17.58	15.95
33 . Operating Expenses / Gross Income		54.01	51.51	47.46	50.45
34 . Operating Profit Growth Rate		-54.55	-7.97	0.58	-21.37
35 . Operating Profit / Average Assets		1.74	3.64	3.67	3.81
36 . Risk Provisioning Charge / Operating Profits		-13.20	0.64	-32.27	-14.92
37 . Realized Income / Gross Income		100.00	100.00	100.00	100.00
38 . Dividend Payout Ratio			89.60	98.23	69.99
F . INVESTMENT					
39 . Market Capitalization (KWD 000)					
40 . Share Price (KWD)					
41 . Earnings Per Share (KWD)		0.002	0.006	0.005	0.005
42 . Earnings Per Share Growth (%)		-60.86	2.37	7.09	-28.76
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)		0.303	0.302	0.306	0.304
. Inflation Rate (%)					

* Annualised ratios for June 2018

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	06/2018	AUD	AUD	AUD	AUD	Growth (%)				Breakdown (%)			
BALANCE SHEET - ASSETS (KWD 000)	**USD 000**	**06/2018**	**12/2017**	**12/2016**	**12/2015**	**06/2018**	**12/2017**	**12/2016**	**12/2015**	**06/2018**	**12/2017**	**12/2016**	**12/2015**
Cash & Banks	5,351	1,620	2,121	5,391	5,166	-23.61	-60.66	4.36	131.11	3.60	4.58	10.87	9.60
Net Financing Receivables	103,295	31,278	32,444	32,532	37,703	-3.59	-0.27	-13.72	19.38	69.50	70.12	65.57	70.09
Other Receivables													
Prepayments & Accruals													
Investments	39,243	11,883	11,099	11,404	10,626	7.06	-2.68	7.32	-3.57	26.40	23.99	22.99	19.75
Net Fixed Assets	153	46	56	68	33	-16.98	-17.58	106.24	-30.74	0.10	0.12	0.14	0.06
Due From Associates													
Goodwill & Other Intangible Assets													
Other Assets	593	180	550	219	264	-67.35	151.87	-17.35	-16.21	0.40	1.19	0.44	0.49
TOTAL ASSETS	**148,634**	**45,006**	**46,269**	**49,614**	**53,793**	**-2.73**	**-6.74**	**-7.77**	**19.01**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.

External Audit	06/2018	AUD	AUD	AUD	AUD	Growth (%)				Breakdown (%)			
BALANCE SHEET - LIABILITIES (KWD 000)	**USD 000**	**06/2018**	**12/2017**	**12/2016**	**12/2015**	**06/2018**	**12/2017**	**12/2016**	**12/2015**	**06/2018**	**12/2017**	**12/2016**	**12/2015**
Short-Term Debt	12,606	3,817	4,519	6,804	6,450	-15.53	-33.58	5.49	67.87	8.48	9.77	13.71	11.99
Short-Term Payables	2,509	760	1,422	819	2,269	-46.59	73.76	-63.92	49.27	1.69	3.07	1.65	4.22
Prepayments & Accruals	2,591	785	1,260	1,055	592	-37.75	19.45	78.19	24.79	1.74	2.72	2.13	1.10
Long-Term Debt	10,963	3,320	1,973	4,138	7,853	68.22	-52.31	-47.31	154.49	7.38	4.27	8.34	14.60
Long-Term Payables													
Reserve for Retirement Pay & Insurance													
Due To Unc. Subsidiaries & Associates	0	0	0	0	0								
Other Liabilities	4,069	1,232	1,113	997	966	10.66	11.66	3.19	50.11	2.74	2.41	2.01	1.80
TOTAL LIABILITIES	**32,738**	**9,913**	**10,289**	**13,812**	**18,130**	**-3.65**	**-25.51**	**-23.82**	**89.52**	**22.03**	**22.24**	**27.84**	**33.70**
EQUITY:													
Equity Attributable To Shareholders of Parent Co.													
Share Capital	101,964	30,875	30,875	30,875	30,875					68.60	66.73	62.23	57.40
Share Premium	1,030	312	312	312	312					0.69	0.67	0.63	0.58
Less: Treasury Shares													
Statutory Reserve	6,607	2,001	2,001	1,825	1,654		9.62	10.37	10.74	4.45	4.32	3.68	3.07
Voluntary Reserve	4,102	1,242	1,414	1,442	1,356	-12.18	-1.95	6.33	13.41	2.76	3.06	2.91	2.52
General Reserve													
Cumulative Change in Fair Value													
Gain on Sale of Treasury Shares													
Foreign Currency Translation													
Proposed Dividend													
Retained Earnings	2,167	656	1,372	1,340	1,458	-52.17	2.35	-8.10	-16.74	1.46	2.96	2.70	2.71
SUB-TOTAL	**115,871**	**35,086**	**35,973**	**35,794**	**35,655**	**-2.47**	**0.50**	**0.39**	**0.08**	**77.96**	**77.75**	**72.14**	**66.28**
Minority Interest	25	8	8	8	8					0.02	0.02	0.02	0.01
TOTAL EQUITY	**115,896**	**35,093**	**35,981**	**35,802**	**35,663**	**-2.47**	**0.50**	**0.39**	**0.08**	**77.97**	**77.76**	**72.16**	**66.30**
TOTAL LIABILITIES & EQUITY	**148,634**	**45,006**	**46,269**	**49,614**	**53,793**	**-2.73**	**-6.74**	**-7.77**	**19.01**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	06/2018	AUD	AUD	AUD	AUD	Growth (%)				% of Average Total Assets			
PROFIT AND LOSS ACCOUNT (KWD 000)	**USD 000**	**06/2018**	**12/2017**	**12/2016**	**12/2015**	**06/2018**	**12/2017**	**12/2016**	**12/2015**	**06/2018**	**12/2017**	**12/2016**	**12/2015**
Interest Income / Financing Income	5,436	1,646	3,393	3,733	3,774	-51.48	-9.13	-1.06	-7.83	3.61	7.08	7.22	7.62
Interest Expense / Financing Expense	-639	-193	-439	-758	-575	-55.90	-42.15	31.93	12.69	-0.42	-0.91	-1.47	-1.16
NET INTEREST INCOME / NET FINANCING INCOME	**4,797**	**1,453**	**2,954**	**2,975**	**3,199**	**-50.83**	**-0.72**	**-6.99**	**-10.75**	**3.18**	**6.16**	**5.75**	**6.46**
Fees & Commission Income			230	189	359	-100.00	21.52	-47.28	127.42		0.48	0.37	0.72
Rental Income			142	129	165	-100.00	10.16	-21.94	7.90		0.30	0.25	0.33
Dividend Income			82	120	83	-100.00	-31.66	44.86			0.17	0.23	0.17
Foreign Exchange Income													
Investment Income	-5	-2	71	20	-203	-102.22	263.64	-109.64	-307.32	0.00	0.15	0.04	-0.41
Share of Results of Unc. Subsidiaries & Associates													
Profit on Sale of Unc. Subsidiaries & Associates													
Other Income	905	274	120	177	203	127.96	-32.00	-12.83	71.75	0.60	0.25	0.34	0.41
NON-INTEREST INCOME / NON-FINANCING INCOME	**899**	**272**	**645**	**635**	**607**	**-57.79**	**1.68**	**4.57**	**15.26**	**0.60**	**1.35**	**1.23**	**1.23**
GROSS INCOME	**5,697**	**1,725**	**3,599**	**3,610**	**3,806**	**-52.07**	**-0.29**	**-5.15**	**-7.42**	**3.78**	**7.51**	**6.98**	**7.69**
General & Administrative Expense	3,077	932	1,823	1,685	1,890	-48.89	8.19	-10.85	12.61	2.04	3.80	3.26	3.82
Lease / Rental Expense													
Depreciation & Amortization			31	28	30	-100.00	9.09	-5.33	-12.73		0.06	0.05	0.06
Other Expenses													
OPERATING EXPENSES	**3,077**	**932**	**1,854**	**1,713**	**1,920**	**-49.74**	**8.20**	**-10.77**	**12.10**	**2.04**	**3.87**	**3.31**	**3.88**
OPERATING PROFIT	**2,620**	**793**	**1,745**	**1,897**	**1,886**	**-54.55**	**-7.97**	**0.58**	**-21.37**	**1.74**	**3.64**	**3.67**	**3.81**
Provisions For Doubtful Financing Receivables			202	-538	-125	-100.00	-137.60	328.89	-15.72		0.42	-1.04	-0.25
Other Provisions	-346	-105	-191	-74	-156	-45.17	156.71	-52.31		-0.23	-0.40	-0.14	-0.32
GROSS PROFIT	**2,274**	**689**	**1,757**	**1,285**	**1,604**	**-60.80**	**36.74**	**-19.93**	**-28.67**	**1.51**	**3.66**	**2.48**	**3.24**
Extraordinary Items	-20	-6	-16	415	-14	-60.79	-103.81	-2971.18	-29.40	-0.01	-0.03	0.80	-0.03
Taxes	-27	-8	-18	-16	-18	-54.91	10.19	-11.87	-20.19	-0.02	-0.04	-0.03	-0.04
NET PROFIT (LOSS)	**2,227**	**674**	**1,723**	**1,683**	**1,571**	**-60.86**	**2.37**	**7.09**	**-28.76**	**1.48**	**3.59**	**3.25**	**3.17**
APPROPRIATION OF SURPLUS:													
Attributable To Minority Interests													
Dividends			1,544	1,544	1,544	-100.00							
Transfer To Equity	**2,227**	**674**	**179**	**139**	**28**	**276.48**	**28.69**	**401.81**	**-95.81**				
Bonus Shares Issued													
Changes In Equity Not Through P&L	**-2,932**	**-888**	**179**	**139**	**28**	**-595.57**	**28.69**	**401.80**	**-98.74**				

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CORPORATE RATIO FORMULAE - FINANCING, LEASING & INVESTMENT

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
F . INVESTMENT	
39 . MARKET CAPITALIZATION	WEIGHTED AVG. NUM. OF SHARES OUTSTANDING X END OF PERIOD SHARE PRICE
40 . SHARE PRICE	END OF PERIOD SHARE PRICE
41 . EARNINGS PER SHARE	NET PROFIT / WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING
42 . EARNINGS PER SHARE GROWTH (%)	(CURRENT Y. EARNINGS PER SHARE – PREVIOUS Y. EARNINGS PER SHARE) x 100 / PREVIOUS Y. EARNINGS PER SHARE
43 . PRICE / EARNINGS RATIO (TIMES)	END OF PERIOD SHARE PRICE / EARNINGS PER SHARE
44 . PRICE / BOOK RATIO (TIMES)	END OF PERIOD SHARE PRICE / (TOTAL EQUITY / WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING)
45 . CASH DIVIDEND PER SHARE	CASH DIVIDEND PAID PER SHARE
46 . STOCK DIVIDEND PER SHARE (%)	STOCK DIVIDEND PAID PER SHARE AS A PERCENTAGE OF SHARE PAR VALUE

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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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- 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.
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