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

Country: Kuwait; **Report Date:** 13 October 2020

Rating Action Snapshot

- **Foreign Currency:** LT and ST Affirmed. Outlook Revised to Negative.

Current Ratings

International Issue Credit Ratings	
Long-Term Foreign Currency (LT FCR)	**BB**
Short-Term Foreign Currency (ST FCR)	**B**
Outlook	**Negative**

Financial Highlights

USDmn	**H1 20**	**H1 20**	**2019**	**2018**
KWDmn	**USD**	**KWD**	**KWD**	**KWD**
Net Financing Income	3.1	0.9	2.7	2.9
Non-Financing Income	-0.4	-0.1	0.0	0.1
Operating Expenses	2.3	0.7	2.2	1.9
Net Profit / Loss	-4.9	-1.5	1.2	0.6
Total Assets	131.7	40.3	44.3	42.4
Net Financing Rec.	82.2	25.2	28.7	29.3
Total Debt	21.2	6.5	7.3	6.7
Total Equity	104.4	31.9	34.0	32.3
Exchange Rate: USD/KWD		*0.306*	*0.305*	*0.304*
NPFR / FRs		24.10	15.97	19.87
FR-Loss Reserve / NPFR		64.57	64.89	104.28
Unprovided NPFR/Total Equity		7.96	5.28	NA
Total Equity / Total Assets		79.29	76.65	76.22
Leverage		0.26	0.30	0.31
ROAA (%)*		-7.04	2.76	1.46

*annualised

Key Rating Factors

Credit Strengths

- Comfortable debt service capability.
- Sound liquid position both supported by collection of FRs.
- Well capitalised balance sheet and high level of unencumbered assets; low debt to equity ratio.
- Sound financing income on average earning assets ratio.

Credit Challenges

- Covid-19 related deterioration in the operating environment; negative economic growth and weak financing demand.
- Small balance sheet and modest market share in the Kuwait consumer financing sector.
- High NPFR/Stage 3 FRs ratio and a high level of Stage 2 financing.
- Very limited and concentrated funding base.
- Low NFI reflecting the narrow business model.
- Loss making in H1 20.

Primary Analyst: Agnes Seah, +357 2526 0000, agnes.seah@ciratings.com
Secondary Analyst: Darren Stubing, +357 2626 0000, darren.stubing@ciratings.com

RATING RATIONALE

Rating Action

Capital Intelligence Ratings (CI Ratings or CI) has affirmed the LT FCR and ST FCR of Al Manar Financing and Leasing Company K.S.C. (Al Manar) at 'BB' and 'B', respectively. The Outlook for the ratings has been revised to Negative from Stable.

Rating Drivers

The revision of the Outlook to Negative largely reflects the significant deterioration of the operating environment due to Covid-19 and its impact on asset quality and earnings. The ratings are largely driven by the Company's comfortable debt service capability and sound liquidity position, both of which are supported by the collection of financing receivables (FRs), the high level of unencumbered assets and the low debt to equity ratio. The ratings are also underpinned by the sound financing income on average earning assets ratio, which compared favourably with the other non-bank financing companies (NBFCs) rated by CI in the region.

The primary credit constraints are the small balance sheet and market share in consumer finance, the high Stage 3 and 2 FRs, and the very limited and concentrated funding base. Al Manar and its peers are also now operating in a very different economic environment. While the decline in oil prices has impacted GDP growth, it is Covid-19 that has had a more direct effect on demand for credit. At the same time, foreign workers are leaving in significant numbers in line with the Kuwaitisation policy and both those remaining and Kuwaitis have cut back on the purchase of consumer durables. Credit risks have also risen. Other constraints to Al Manar's ratings are low non-financing income (non-FI), reflecting Al Manar's narrow business model, and the net loss position at end H1 20.

Al Manar is a relatively small-scale finance and leasing company in Kuwait with a modest share of the consumer financing market. The non-bank portion of the latter remains dominated by its largest peer, Commercial Facilities Company (CFC). Slower economic growth and keen competition has contributed to a declining FR book for most non-banking finance companies (NBFCs) over the past few years. A sharper contraction was witnessed in H1 2020 given the substantial deterioration of the operating environment due largely to the impact of the pandemic. Together with the lower oil price, Kuwait's economic growth turned negative and financing demand remained weak. In terms of financing quality, Al Manar's non-performing financing receivable (NPFR) ratio improved in 2019 following a large write off of impaired financing, however it rose again to a fairly high level due to a large jump in NPFRs in H1 20, which was further compounded by the contracting financing book. Stage 2 financing also rose to a fairly high level. This weaker quality trend was in line with the other NBFCs rated by CI in the GCC region. Another negative development was the decline in the loss coverage ratio. In part this reflects the reversal of specific provisioning related to the written off assets but also the adoption of IFRS 9, which reduces the required level of provisioning if collateral coverage is good. Al Manar's loss coverage ratio was maintained at a satisfactory level at end H1 20 and compared well with the other rated NBFC peers in the region. The unprovided NPFR to total equity was also moderately low. Going forward, financing quality is likely to weaken further but key metrics are likely to be largely in line with the Company's peers in the region.

Al Manar's portfolio of investments – comprising murabaha receivables, financial investments and investment properties – increased noticeably in 2019 with the acquisition of foreclosed properties. This portfolio however declined in H1 20 due to revaluation losses and impairment charges taken, although it still formed a fairly sizeable proportion of total assets. Concentration in individual holdings remained, although they represented a moderately low proportion of total assets. A large proportion of these investments are either pledged to existing borrowings or in the form of unquoted investments. Consequently the Company's effective liquidity is linked to its sound collections of FRs. However any adverse development in asset quality could have a negative effect on cash flow.

The Company's lender base remains limited and concentrated, with one lender providing the bulk of funding. The Company continues to borrow on a secured basis and the level of unencumbered assets remained fairly moderate. The debt maturity profile has weakened with a higher proportion of short-term borrowings. However a large proportion relates to a revolving facility and consequently effective short- term debt is fairly low. The latter is also well covered by a collection of FRs, as reflected by the largely positive maturity gaps which support the sound debt repayment capacity of the Company.

Al Manar is well capitalised. Its debt to equity ratio remains low and its leverage is also considered low for a finance company, something which also constrains earnings. The full retention of earnings in both 2018 and 2019 is a credit positive development given the high dividend payment payout ratio in prior years.

In terms of earnings, the Company's performance has remained constrained by the contracting FRs book and the resulting decline in net financing income (NFI). Financing income on average earning assets improved in 2019 but fell back in H1 20; however it remains sound and compares well with the other NBFCs rated by CI in the region – the issue for Al Manar is volumes rather than margins. Non-FI remained modest and declined in 2019 due largely to lower financing fee income and an impairment loss on investment properties. In H1 20, non-FI turned negative due to further impairment on investment properties and a large revaluation loss for financial securities. Operating expenses also rose noticeably in 2019 due largely to expenses related to the Company's listing but declined y-o-y in H1 20. Due to declining gross income, Al Manar's operating profit contracted in both periods and operating profitability fell to a low level in H1 20. Thanks to a provision write-back, the Company was able to post a doubling of net profit in 2019. In contrast, a large provision charge led to a net loss for the Company in H1 20. Going forward, the Company's earnings are likely to be constrained by weak financing activities in the last quarter of 2020 and Al Manar is likely to record a net loss for the year as a whole.

Rating Outlook

The revision of the Outlook to Negative indicates that the ratings are likely to be lowered by one notch in the next 12 months to reflect expected weaker financing quality metrics, lower risk absorption capacity and the likely net loss position for the full year 2020.

Rating Dynamics: Upside Scenario

Although considered remote at this stage, the Outlook could be revised to Positive and/or the rating raised if the Company's financing quality improves significantly with a much lower NPFR ratio and much higher loss coverage. Such a positive adjustment would also require that the Company's earnings improve and return to a net profit position – something that is unlikely in the short term given the expected weakening of financing quality and the consequent need to increase provisioning, as well as the declining financing income.

Rating Dynamics: Downside Scenario

Although not our base case, the ratings could be lowered by more than one notch in the next 12 months if the Company's financing quality weakens sufficiently further to impact the collection of FRs. Should this happen, operating income would drop lower than currently anticipated while cash flow would also tighten.

COMPANY HISTORY AND STRATEGIES

Business Model and Strategy

CI View

Al Manar is a small NBFC in Kuwait. Slow economic growth and higher competition from banks in recent years has contributed to the contraction of the financing receivable book. The further deterioration of the operating environment due to the pandemic and the hike in the oil price led to a negative economic growth at end Q1 20; economic growth is likely to remain negative for the full year 2020. With the heightening of credit risk, the Company's main focus is on managing risk and maintaining asset quality rather than financing growth. Moreover the financing growth prospect is likely to remain very weak in the short to medium term.

Business Model

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

Financing Activities

Consumer Financing: This relates largely to facilities for the purchase of new vehicles; 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.

Al Manar also provides 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.

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

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) an 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

Al Manar maintains a book of financial investments comprising largely unquoted financial investments, Islamic instruments (Murabaha receivables) and investment properties. The latter comprised properties acquired from the foreclosure of NPFRs in earlier years as well as additional properties purchased given the slow FRs activities in recent years. At end H1 20 this book of investment properties remained modest at 9.9% of total assets. The unquoted financial investment relates largely to Qatar Finance House (QFH). The latter is incorporated in Qatar and its principal activity is consumer financing in accordance with the Sharia'a law. QFH was loss making for a number of years but turned profitable in 2017 and 2018. However, this was attributed to a large reversal in provision in 2017 and a large revaluation gain for real estate investments. At end H1 20 the Company's assets amounted to QAR196.7mn and an equity base of QAR136.3mn.

Contribution from these investments is in the form of financing income (from its Murabaha investments), dividend income (from its financial investments) and rental income (from its investment properties), but they remained moderate in aggregate at end H1 20. Moreover the Company has taken a fairly large impairment in the past as QFH was loss making for many years except for 2017 and 2018. The Company returned to a net loss of QAR5.4mn in 2019 but reported small net profit of QAR1.0min in H1 20.

Funding

Al Manar operates under an Investment Company licence and it therefore 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 the assignment of FRs. The latter has however expanded over the years to include Islamic instruments, financial investments and investment properties.

Franchise Strength

Al Manar's key strength is its well established franchise. The Company has a sound – albeit moderate – share of the non-bank financing market in Kuwait given its size. Its strength mainly lies with its in-depth knowledge and experience of Kuwait's consumer financing market while its key competitive edge relates largely to the speed and quality of its service.

Business Strategies

The main challenges and risk factors for Al Manar relate largely to asset quality, availability of funding lines and operating efficiencies. However a greater additional challenge this year for Al Manar and its peers is overcoming the impact of the pandemic.

Maintaining the sound quality of the FR book: The quality of Al Manar's financing book improved in 2019 with a large write off which contributed to the decline of the NPFR ratio. However the reversal of related provisioning and the adoption of IFRS 9, which places more consideration on collateral, saw loss reserve coverage falling to just a satisfactory level. Due to the substantial deterioration of the operating environment as a result of the pandemic, in H1 20 financing quality weakened in common with its peers. The NPFR ratio climbed back up to a fairly high level but loss reserve coverage ratio was largely maintained. With the still elevated credit risk environment, management will remain focused on improving financing quality, speeding up recovery processes and, where possible, obtaining additional collateral to further improve debt recovery prospects.

Diversifying funding base: Al Manar does not have a customer deposit base due to regulatory restrictions and, as previously stated, apart from capital, funding is reliant upon bank facilities and other wholesale funding sources. In this regard, Al Manar's funding base has been fairly stable for a number of years with the main lender, KFH, providing the bulk of funding. This concentration risk is to some extent unavoidable given the limited number of fully Islamic banks in Kuwait. Debt serviceability however remains good and is supported by the collection of FRs. The Company also has a high level of unencumbered assets to secure additional funding if required. That said, funding requirements are likely to be limited going forward given the weak financing growth prospect in the short to medium term.

Improving operating efficiency and profitability: The Company's rising cost-to-income ratio was caused by the drop in gross revenue rather than the modest increase in operating expenses in previous years. This ratio climbed further in 2019 and H1 20 due to expenses related to the listing of the Company in 2019 and sharp fall in revenue in H1 20 due to the contracting financing receivable book, revaluation losses and impairment taken against its portfolio of investment properties. Staff costs actually declined in both periods. Al Manar's cost-to-income ratio thus remained the highest among related rated peers in H1 20. In terms of earnings, the Company reported a near doubling in net profit in 2019 on the back of a provision write-back but in H1 20 a substantial increase in provisioning led to a net loss. Al Manar's operating profitability declined further in both 2019 and H1 20 and was the weakest among CI's group of peers in the region. Al Manar's financing income on average assets ratio remained sound in H1 20 despite the decline and it compared well with these peers.

Back to basics strategy: 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. Al Manar continues to look to divest its (14.8%) stake in QFH. Recurring income from its financial and real estate investments remained fairly modest reflecting the Company's narrow business line.

Competitive edge: Given the lower funding costs and the focus on the retail and SME segments by banks, competition has risen more noticeably in recent years. Together with the slow economic growth in Kuwait for the past few years, the lending books of NBFCs including Al Manar have largely been on a declining trend. In Kuwait, the NBFC market remains dominated by CFC. Al Manar will continue to draw on its experience and expertise to provide a competitive edge in terms of quality of service and speedy process to maintain its market share.

Ownership and Governance

CI View

The Company's financial disclosures are adequate. Significant additional information was also provided by management. The Bank's stable shareholder base changed last year with Aqar Middle East Real Estate Company (Aqar) becoming its largest shareholder. The latter is a fairly small real estate company in Kuwait with a balance sheet and equity size smaller than Al Manar's. Notwithstanding the low leverage at Aqar, financial support to Al Manar is likely to be limited.

History and Ownership

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 CBK and Capital Market Authority (CMA). Al Manar has completed its listing on the KSE in February 2019. The Company's major shareholders, which had been very stable for many years, changed with Aqar acquiring 29.0% of the Company on 24 November 2019.

Major Shareholders at end August 2020 (%)	
Aqar Middle East Real Estate Co (Aqar)	29.0
Wafra International Investment Co (Clients account: PIFSS)	14.6
Bader Hamad AlRabiah	8.2
Others	48.2
Total	**100.00**

Aqar is a 100% subsidiary of Aqar Real Estate Investments Company which was established in 1997 in Kuwait and has been listed on the Kuwait Stock Exchange since 2005. At end H1 20, the parent had assets totalling KWD28.9mn with an equity base of KWD27.6mn. The company reported a 34.9% contraction in net profit in 2019 due mainly to the reduction in rental income from the sale of a property as well as a change in the rental contracts in the second half of 2019. Total liabilities rose noticeably but from a low base and leverage of the Company remained low at 0.25 times.

DETAILED RATING ANALYSIS

Accounting, Disclosure and Transparency

The 2019 consolidated financial statements of Al Manar and its subsidiaries were prepared by management in accordance with International Financial Reporting Standards (IFRS) and audited to International Accounting Standards by Deloitte & Touche, Al Wazzan & Co. The 2019 accounts are unqualified. The following analysis also uses the H1 20 financials, which are unaudited but reviewed.

Disclosure in the financial statements is satisfactory but management has provided substantial additional information to CI.

Funding and Liquidity

CI view

Al Manar's lender base remained highly concentrated. However the Company has a fairly long-term relationship with its main lender and the bulk of facilities has been rolled over for a number of years. Al Manar also has a large proportion of unencumbered assets to raise additional funding if required, however given the weak financing prospects this is likely to be limited. Liquidity is largely supported by the collection of FRs and thus far has remained fairly sound.

Funding

As stated earlier, the Company operates on a Sharia'a compliant basis and consequently, all borrowings are via Islamic structures. The Company's borrowings were stable in 2018 but rose by 13.7% to KWD7.3mn at end 2019 before falling back to 11.8% to KWD6.5mn at end H1 20. The lenders base remained limited and comprised two local Islamic banks, Kuwait Finance House (KFH) and Boubyan Bank. As in the year earlier, KFH remained the Company's main lender and accounted for a high 93.6% of total borrowings at end H1 20. These consisted of two facilities from KFH totalling KWD6.1mn (one facility of which was fully repaid in August 2020) and a fully drawn term facility of KWD1.7mn from Boubyan maturing January 2021. The outstanding of the latter was KWD0.4mn at end H1 20.

The Company's short-term borrowings accounted for a higher 66.2%and 74.6% of total debt at end 2019 and H1 20, respectively. That said, a large proportion of short-term borrowings relate to a revolving facility from KFH.

Encumbered Assets H1 2020	KWDmn	% of Total Portfolio	% of Total Assets
Islamic Instruments	4.3	100.0	10.8
FRs	3.8	15.2	9.5
Investment properties	3.1	76.7	7.5
Total	**11.2**	**30.2**	**27.8**

Collateral pledged to these two facilities totalled KWD11.2mn at end H1 20, which equates to a moderately low 27.8% of total assets. This in turn points to the highly unencumbered assets of Al Manar which could support the raising of additional funding if needed. However with the slow FRs activities as evidenced by the further contraction of the FR book and continued weak financing growth prospect, Al Manar's financing needs are likely to be fairly limited for the remaining of the year.

Liquidity

Maturity Gap KWDmn	>3 mths	3-6mths	6-12mths	>1yr
2019				
FRs	4.34	3.22	5.65	15.46
Borrowings	0.91	0.86	3.08	2.48
Gap	**3.43**	**2.36**	**2.57**	**12.98**
H1 2020				
FRs	2.30	3.92	5.15	13.78
Borrowings	2.40	1.16	1.27	1.64
Gap	**-0.10**	**2.76**	**3.88**	**12.14**

The Company's liquidity assets comprised largely cash and cash balances, which accounted for a modest 2.5% of total assets at end 2019 and rose marginally to 3.8% at end H1 20. Its investments in Murabaha receivables are also considered liquid, however these are already pledged to existing borrowings. Financial investments on the other hand are largely unquoted, although there are some secondary market activities. The portfolio of income generating investment properties could provide another source of liquidity if needed. However, similar to previous years – and in line with the business model – the Company's effective liquidity is supported by the instalment collections from FRs activities. As shown in the table below, the maturity gap of FRs and borrowings for all buckets remained highly positive except for a very small negative for under 3 months maturity bucket at end H1 20, which is more than sufficiently covered by cash and cash balances. A credit positive is that the Company has not deferred any repayment of its borrowings which is part of CBK's relief package for SMEs and consumers in light of the pandemic.

Cash flow analysis is not particularly meaningful for a finance company. For the record, Al Manar's operating cash flow remained positive but at a lower KWD1.0mn in 2019, down from KWD2.3mn in 2018, due to much higher (KWD1.2mn) other receivables. Cash flow for investing activities was a larger negative due largely to the KWD1.7mn purchase of investments properties. Net cash flow from financing activities was a small positive of KWD70k. Consequently, investing activities outflow was partly covered by a decrease (KWD0.5mn) in cash and cash equivalent.

For the first six months of 2020, net cash from operating activities was a higher positive totalling KWD1.5mn, compared to a low KWD61k in the same period last year. This was due to collection of FRs (KWD2.3mn) which were partly used to lower account payables (by KWD1.1mn). Cash flow from investing activities was a modest KWD65K inflow due to dividend income received. Cash flow from financing activities was an outflow of KWD1.1mn, with repayment of Islamic murabaha and wakala payables as well as finance costs.

Debt to Liquid Asset Ratios KWDmn	2019	H1 20
S/T borrowings	4.85	4.83
Other payables	1.81	0.65
Total S/T Liabilities*	**6.66**	**5.48**
S/T Finance Receivable	13.21	11.37
Investment in Murabaha receivables	4.35	4.35
Cash & cash equivalent	1.11	1.53
Total	**18.67**	**17.25**
Cash & S/T FR /ST Liabilities (times)	**2.80**	**3.14**
Cash & S/T FR / S/T borrowings (times)	**3.84**	**3.57**

**exclude provision for staff indemnity.*

Al Manar's debt repayment capacity remained sound and continued to be supported by the collection of FRs. As shown in the above table, cash and short-term FRs provided more than sufficient cover for short-term borrowings. As stated earlier, the Company's liquid asset holdings remained relatively modest and its effective liquidity is largely supported by its short-term proportion of FRs. The latter accounted for a high 46.1% and 45.2% of net FRs at end 2019 and H1 20, respectively. While NPFRs rose in H1 20, the quality of the FRs book has remained sound. That said, a sharper weakening of these exposures going forward could still impact the collection of FRs.

Capital and Leverage

CI View

Al Manar has a small equity base. Internal generation was previously constrained by a high dividend payout ratio. A positive development is the full retention of earnings in 2018 and 2019. Leverage is considered too low for a finance company which requires borrowings to build up its FRs book in order to grow earnings.

Capital Quality

Equity KWDmn	2018	2019	H1 20
Capital & Premium	31.2	31.2	31.2
Reserves	3.2	3.6	2.2
Retained Earnings	-2.1	-0.9	-1.5
Total	**32.3**	**33.9**	**31.9**

Al Manar's equity base remained small. It never had a large paid-in capital 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's internal capital generation was good in previous years with the full retention of net profit – but given the resumption of dividend payments in 2014, internal capital generation has dropped substantially. 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 were 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. The Company did not pay any dividend for FYE 2018 and 2019, thus replenishing retained earnings. However in H1 20, due to the elevation of credit risk, the Company took a very large provision charge, leading to another net loss which increased the negative position of retained earnings at end H1 20. As shown in the table above, the Company's capital comprised largely share capital and premium, thus supporting the good quality of its capital base.

With the faster growth of the equity base in 2019, the Company's leverage ratio improved by a marginal 1bp to 0.30 times. In H1 20, notwithstanding the contraction of the equity base, the much sharper decline of total liabilities by 19.3% led to an even lower leverage. At 0.26%, it was the lowest among rated peers. 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 FRs portfolio to grow earnings, which will in turn require new funding. The latter will continue to be in the form of bank borrowings as it cannot accept customer deposits.

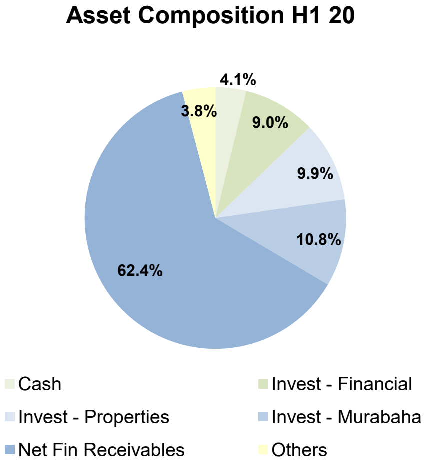
Risk Profile and Risk Mitigation

CI View

Al Manar's FRs book continued to contract in both 2019 and H1 20, and is likely to decline further given the weak growth prospect for the remainder of the year. In terms of financing quality, this improved in 2019 due to a large write off, but weakened in H1 20 due to the substantial deterioration of the operating environment. The Company's NPFR ratio rose to a fairly high level at end H1 20 but was in line with the other NBFCs rated by CI in the region. The reversal of provisioning and the adoption of IFRS 9, which places greater emphasis on collateral, have led to the decline in loss reserve coverage to a just satisfactory level which was maintained at end H1 20. The latter was still the second best among rated peers in the region. Stage 2 financing rose to a fairly high level at end H1 20, although this too was in line with peers in the region. Going forward, financing quality is anticipated to weaken further due to the downturn.

Asset Composition and Concentration

Following the contractions over the past two years, Al Manar's asset base rose by 4.5% in 2019 and was largely due to further acquisition of investment properties and the sharp increase in other receivables in particular staff receivables. The latter relates to interest free loans to staff against their indemnity.

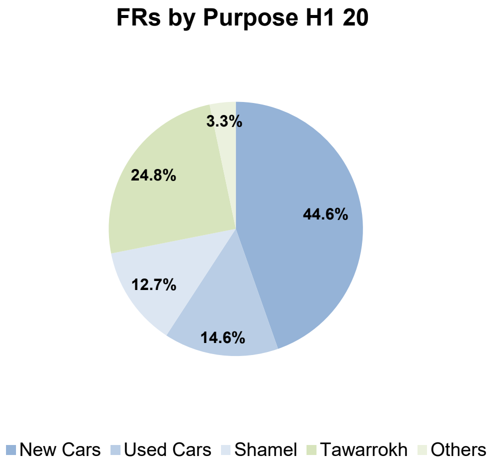


In 2019, Al Manar's BOD had approved to pay 75% of all staff indemnity as interest free loan to each staff member. Each staff member has to pay a monthly instalment which is deducted directly from his salary. As there is no specific tenor and in accordance with their auditors, these loans are to be stated as a 12 month instalment loan with a balloon payment on the 13th month.

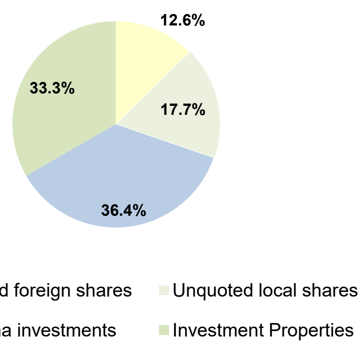
The operating environment has since deteriorated sharply due to the impact of the pandemic and the decline in the oil price, which in turn has led to negative economic growth in H1 20. Against this back drop, Al Manar registered a 9.1% decline in total assets at end H1 20. The largest contraction was the 17.3% decrease in net financing which represented a lower 62.4% of total assets. Adopting a prudent policy to conserve liquidity to weather the downturn, the Company's level of liquid holdings (cash and Murabaha receivables) rose by 7.7% to form a higher 14.6% of total assets. In line with its business model and focus, the Company's assets are predominately in Kuwait.

With repayments remaining ahead of new business, Al Manar's net FRs book declined further in 2019 by a modest 2.3%, compared to the 9.5% contraction seen in 2018. With the noticeable deterioration in the operating environment and the weak financing demand, the net FRs book fell by a sharper 12.3% in the first six months of 2020. However, the composition of this book has not changed significantly over the years and the position at H1 20 is illustrated in the charts below.

Financing for new vehicles as shown in the adjoining chart constituted the largest proportion of the gross FRs book despite the declining trend in recent years due to weaker financing demand. The latter was in part due to the repatriation of expats in line with the Kuwaitisation plan as well the slow economic growth. The second largest component was tawarroukh financings, which are used largely for the purchase of residential and investment properties as well as heavy equipment. These financings have been rising noticeably in recent years largely due to higher demand for real estate financing. This is followed by Shamil which are financings for the purchase of building materials, trucks and fleet of vehicles for business purposes. Together with the financings for used cars, these four main types of financing formed the bulk (96.7%) of gross FRs at end H1 20. As in previous years, the largest proportion of lending was to the corporate segment at 88.2% of gross FRs at end H1 20. The top 10 borrower exposures accounted for a moderate 16.0% and 16.7% at end 2019 and H1 20, respectively.



Composition of Investments H1 20



Investments Type (KWDmn)	2018	2019	H1 20
Financial Investments	4.5	4.4	3.6
Islamic Instruments	4.4	4.3	4.3
Properties	2.3	4.1	4.0
Total	**11.2**	**12.8**	**11.9**
% of TL Assets	**24.0**	**29.0**	**29.6**

The main components of the Company's investments portfolio are shown in the above table. The main increase in 2019 was the rise in investment properties with the further acquisition of foreclosed properties. However at end H1 20, this portfolio declined by 7.0% due largely to the lower valuation of financial investments in line with the fall of the stock market in Q2 20 and the decrease in investment properties due to depreciation and impairment charges. Nonetheless Al Manar's overall investments portfolio represented a high 29.6% of total assets at end H1 20. While the investments portfolio provided some diversification of assets, contribution to revenue remained modest.

Al Manar's financial investments comprised largely unquoted local and foreign shares. The latter relates largely to its holding in QFH. As in the previous year, apart from the QFH investment which was classified as financial assets at Fair Value Other Comprehensive Income (FVOCI), all other financial investments were classified as financial assets at Fair Value Through Profit and Loss (FVTPL). Islamic instruments on the other hand consisted of 3 Murabaha contracts with KFH.

As stated earlier, the Company's investment properties are located in Kuwait. Two additional properties were acquired in 2019 bringing the total to five holdings, and this remained the same at end H1 20. Valuations are carried out by independent valuers not related to the Company. Although fair valuations declined from WD4.6mn at end 2019 to KWD4.5mn at end H1 20, they remained higher than the book value at KWD4.1mn and KWD4.0mn, respectively.

In terms of concentration, the top five largest individual holdings (two Murabaha contracts, 2 unquoted shares (including QFH) and a property in Kuwait) in aggregate amounted to KWD9.0mn and KWD8.4mn, respectively, at end 2019 and H1 20, which represented a high 70.3% and 70.6% of the Company's investments portfolio but a more moderate 20.4% and 20.8% of total assets at end 2019 and H1 20, respectively.

Quality of FRs and Investments

	Gross Financing			NPFRs			NPFR Ratio		
KWD000	**2018**	**2019**	**H1 20**	**2018**	**2019**	**H1 20**	**2018**	**2019**	**H1 20**
New Cars	18,809	12,624	15,514	2,232	318	785	11.9	2.5	5.1
Tawarroukh	9,736	8,648	8,636	3,002	3,580	4,865	30.8	41.4	56.3
Used Cars	6,176	5,668	5,099	745	100	360	12.1	1.8	7.1
Shamil	5,785	4,457	4,412	1,357	976	1,120	23.5	21.9	25.4
Others	2,326	5,887	1,152	22	37	51	0.0	0.6	4.4
Total	**42,832**	**37,284**	**34,813**	**7,358**	**5,011**	**7,181**	**17.2**	**13.4**	**20.6**

Note: Gross Financing differs from CI's spreads as they include deferred revenue. It is worth noting that NPFRs reported also include deferred revenue and consequently, the NPFR ratios are therefore more consistent.

Financing quality improved in 2019 with a relatively large write off and consequently, despite the contraction of FRs, Al Manar's NPFR ratio declined to 16.0% at end 2019, which was the second lowest ratio among the NBFCs rated by CI in the region. The Company's Stage 3 FRs registered a substantial 30.6% drop with a large write off totalling KWD4.5mn. Stage 2 FRs also saw a sizeable 18.1% decline to KWD6.9mn, although they formed a still sizeable 18.5% of gross FRs (including deferred revenue) at end 2019. The latter was largely in line with that of its peers and other NBFCs in the region. In H1 20, however, Stage 3 FRs rose by a large 43.3% and with the sharper contraction of the FRs book, Al Manar's NPFR ratio rose to a fairly high 20.6% as shown above. Stage 2 FRs also rose by a significant 46.4% to KWD10.1mn, which represented an even higher 29.0% of gross FRs (including deferred revenue). This noticeable weakening of financing quality was seen across its peers in the region given the elevation of credit risk due to the pandemic.

As shown in the table above, by financing type the largest proportion of Stage 3 FRs remained with Tawarroukh financing and the already high NPFR ratio rose further in 2019 and H1 20. This was followed by Shamil with also a fairly high NPFR ratio. The weaker quality of Tawarroukh financing, as evidenced by the Stage 3 ratios, is partly mitigated by the high level of collateral while the quality of Shamil financing also is partly mitigated by the fact that part of this exposure relates to government projects. Al Manar has reduced both tawarroukh and shamil financing in 2019 but more modestly in H1 20, however in aggregate they still represented a fairly high 37.5% of gross FRs at end H1 20.

A negative development in 2019 was the substantial fall in loss reserve coverage. With the large write off, the Company also reversed KWD4.0mn provisions for expected credit losses which led to a significant 56.8% decline in FR loss reserves. FR loss reserve coverage thus fell from a more than full position to a satisfactory 64.9% at end 2019. The latter was the second highest among the NBFCs rated by CI in the region. In H1 20, with the substantial rise in NPFRs, the Company increased loss reserves by a large 39.9% and consequently loss coverage was largely maintained at 64.6%, which was still the second best among related peers. A particular credit positive for Al Manar was the still moderately low unprovided NPFR to total equity ratio which stood at 8.0%.

Stage 3 collateral as per IFRS 9 and not CBK totalled KWD3.0mn and KWD4.5mn at end 2019 and H1 20, respectively. Together with Stage 3 provisions they provided a loss coverage ratio of 108.7% and 113.5% at end 2019 and H1 20, respectively. The Company has substantially increased the level of collateral for Stage 2 loans from KWD217k in 2019 to KWD2.2mn at end H1 20. Nonetheless including Stage 2 provisions, loss coverage ratio for Stage 2 financing was fairly limited at 9.6% at end 2019 and improved to a still low 27.6% at end H1 20.

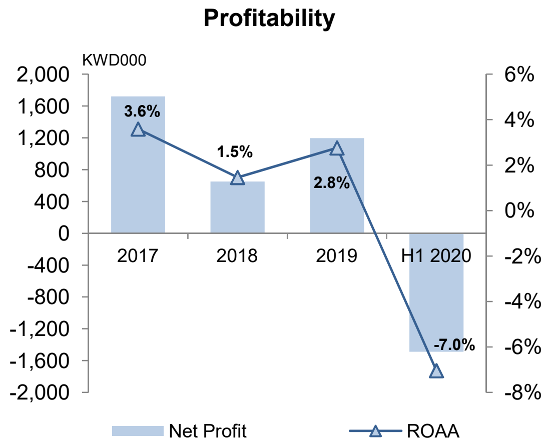
Earnings Performance

CI view

Al Manar's earnings performance will remain constrained by the contraction of FRs and the higher cost of risk. The decline in FR activities has resulted in a y-o-y decline of NFI, however the net financing margin/financial differential has remained sound and compared better with that of a number NBFCs rated by CI in the region. Non-FI is expected to remain modest reflecting Al Manar's narrow business line. The high and rising cost-to-income ratio was due to the weaker revenue rather than higher staff expenses. The near doubling of net profit in 2019 was on the back of a provision write-back but a substantial provision charge together with losses on deferral of financing instalments, revaluation losses of financial investments, and impairment taken for investment properties that led to a net loss in H1 20. Due to the weak prospects for financing activities, CI believes the Company is likely to remain in a net loss at end 2020.

Financial Performance

As shown in the adjoining chart, Al Manar's earnings improved in 2019 but fell back sharply with a net loss in H1 20. Gross income registered a more moderate 7.3% contraction in 2019, down from a larger 17.9% decline a year earlier. In line with its business model, the main contributor to the Company's earnings is NFI. This however has been on a declining trend over the past few years which largely reflects the contraction of the FR book over the same period.



H1 2020 ROAA is annualised

The Company was able to marginally improve financing income on average earning assets to 10.33% in 2019, which also compensated for the rise in cost of funds to 6.27%. This in turn led to a widening of net financing margin to 4.06%. This ratio was better than the average of NBFCs rated by CI in the region.

In 2019, non-FI more than halved to a modest KWD43k. Net investment income remained negative while income from investment properties was impacted by impairment losses, which offset the improvement in rental income. Financing fee income also declined by a modest 4.9%. Al Manar's non-FI to gross income dropped to a very low 1.6%, from 2.9%, reflecting the Company's very narrow business line.

With the contraction of gross income and a sharp rise in operating expenses, the Company's operating profit registered a further large fall of 46.9% in 2019. The rise in the operating expenses was due to the subscription and listing fees as well as depreciation. Al Manar's already high cost-to-income ratio thus rose further to 79.9% in 2019, which remained the highest among the NBFCs rated by CI. The Company's operating profit to average assets dropped to a low 1.3%, which was the weakest among its rated peers. That said, the Company's financing income to average earning assets remained sound despite the decline to 10.3% and was still the best among its rated peers. Thanks to the KWD0.7mn provision writeback, the Company was able to post an 85.4% increase in net profit to KWD1.2mn.

Performance for the first six months of 2020 weakened substantially with the Company reporting a net loss of KWD1.5mn. This was due to a number of items including provisioning of KWD1.2mn, loss on deferral of financing instalments of KWD0.4mn, impairment of investment properties of KWD0.1mn, and negative change in fair value of investments of KWD0.2mn. Profitability ratios thus turned negative. Gross income more than halved to KWD0.8mn due largely to the 30.9% decline in NFI from the contracting FR book and the substantial fall of non-FI to KWD0.1mn from KWD0.4mn for the same period last year. The net financing margin narrowed to 2.5% in H1 20 due to the decline in financing income on average earning assets, although the latter remained sound at 8.0% and it compared well with its rated peers. The sharp contraction of non-FI was caused by the impairment taken on Al Manar's investment properties and the revaluation losses of its investment portfolio with the fall of the financial market.

Consequently, notwithstanding a sizeable 37.0% y-o-y decline in operating expenses, the Company's operating profit fell to KWD0.1mn in H1 20, compared to KWD0.7mn in the same period last year. With a provisioning expense of KWD1.2mn, which was considerably higher than the KWD30k in H1 2019 and the recognition of a KWD0.4mn loss on deferral of financing instalments, the Company reported a net loss of KWD1.5mn in H1 20, compared to a net profit of KWD0.6mn for the same period last year. That said, all of its rated peers have also witnessed a sharp weakening of earnings with net profit falling by around half or a net loss in H1 20. The quality of the Company's earnings however remained good with NFI accounting for the bulk of revenue.

SUPPLEMENTARY INFORMATION

I. Financial Forecasts

The Company has provided CI with a forecast for the period 2020-24, taking into account the effects of Covid-19. Net losses had reached KWD1.6mn at end August 2020 and the Company expects the losses to stabilise around KWD1.5mn at end 2020. Sales have also resumed after stopping in mid-March and are forecast to reach over KWD17mn over the next few years. However CI anticipates a slower recovery in consumer demand especially in the short term, in particular 2021, which would in turn constrain growth projections. The forecast assumed no new external financing and all outstanding loans to be repaid by end 2022. New business would thus need to be funded internally through the collection of FRs. The Company's asset base will be totally unencumbered when all debts are repaid and could support new funding if required.

Asset Base

Asset Composition KWDmn	2020	2021	2022	2023	2024
FRs	21.0	23.1	26.1	29.1	30.7
Investments	2.4	2.4	2.4	2.4	2.4
Murabaha & Wakala	4.3	4.3	4.3	4.3	4.3
Invest Properties	4.0	4.0	4.0	4.0	4.0
Cash	3.4	2.4	1.5	1.8	3.7
Others*	1.5	1.2	1.1	0.8	0.7
Total	**36.6**	**37.4**	**39.4**	**42.4**	**45.8**

**rounded up to balance total where appropriate*

Given that there is no radical change in the basic business model, asset growth is to be supported almost completely by FRs expansion. Financing growth is capped at around KWD700k per month for the last quarter of this year. The Company anticipates financing growth prospects to improve from next year onwards, with sales rising to KWD17.2mn in 2021 and KWD18.0mn in 2024. The focus will remain with new vehicles financing (to account for 58% of annual sales) followed by used vehicles (28%), while Tawarroukh financing (real estate) will be limited to 7% of total. As shown in the above table, the net FRs book represents 57.4% of total assets at end 2020 and is anticipated to rise annually to reach 68.6% in 2023 before falling back marginally to 67.0% in 2024.

The portfolio of investments comprising trading securities and QFH is to decline further by 10.1% to KWD10.7mn at end 2010, from end H1 20, due to lower market valuation. They are to remain at this level throughout the forecast period which equates to an average of 26.7% of total assets. While the forecast shows the QFH investment remaining, the Company will continue trying to divest this investment. With the very challenging operating environment, the Company has also adopted a policy to conserve cash for liquidity. Consequently cash and cash balance is expected to rise to near 10.0% of total assets at end 2020.

KWDmn	2019	2020	2021	2022	2023
Wakala payables	3.1	0.8	0	0	0
Other creditors	*1.2*	*1.3*	*1.4*	*1.5*	*1.4*
Total liabilities	*4.7*	*4.9*	*3.5*	*3.8*	*4.4*
Total equity	*31.9*	*33.5*	*35.9*	*38.6*	*41.4*
Leverage	**0.14**	**0.14**	**0.09**	**0.09**	**0.10**

The Company's forecast shows that internal cash generation will be sufficient to fund the revised lower FRs book in the medium to long term. Total borrowings are expected to decline by over a third at end 2020 and the last repayment is due in 2022. From 2023 onwards the Company will not have any external funding. That said, the Company will continue to have a small facility (well under KWD2.0mn) from QFH. No capital increase is projected for the forecast period and consequently the equity base is to grow in line with forecast earnings. The Company's low leverage is thus anticipated to decline further to a fairly minimal level from 2022 onwards as shown in the table above. While cash flow forecast does not show any dividend payment, the Company will more than likely distribute annual dividends to reinforce the value of its shares when it turns profitable again from 2021 onwards.

As in previous years, the Company's liquid asset holdings will remain confined to the relatively modest amount of cash balances, and murabaha and wakala investments. The latter are however currently pledged to existing borrowings. Financial investments are modest and remain largely unquoted. However the book of investment properties of income generating properties will remain another source of liquidity/funding for the Company. As in previous years, the Company's effective liquidity is largely supported by its collections from FRs.

Cash flow forecasts also show total incoming cash flow largely from instalment collections. This was sufficient to meet debt and QFH's repayment, as well as financial receivables expansion and operating expenses. With the repayment of external borrowings in 2022, the Company's asset base would also be totally unencumbered.

Profit and Loss **KWDmn**	**2020**	**2021**	**2022**	**2023**	**2024**
Financing Income	*2.20*	*2.39*	*2.87*	*3.31*	*3.56*
Funding Cost	*(0.35)*	*(0.11)*	*(0.02)*	*(0.0)*	*(0.1)*
Net Financing Income	1.85	2.28	2.85	3.31	3.56
Other income	0.25	1.24	1.19	1.16	1.13
Gross Income	2.10	3.52	4.04	4.47	4.69
Operating expenses	(1.88)	(1.26)	(1.29)	(1.33)	(1.39)
Operating Profit	0.22	2.26	2.75	3.14	3.30
Provision	(1.76)	(0.61)	(0.59)	(0.67)	(0.71)
Net Profit	**(1.54)**	**1.65**	**2.16**	**2.47**	**2.59**
Growth (%)	**NA**	**NA**	**30.90**	**14.35**	**4.85**
Operating profitability	**0.54**	**6.10**	**7.16**	**7.67**	**7.47**
ROAA (%)	**NA**	**4.46**	**5.61**	**6.03**	**5.88**

As shown in the table below, NFI is expected to grow over the forecast period in line with financing growth projections and lower funding cost from the repayment of its external borrowings. Other income comprising largely rental income, fees and commissions and dividend income among others is expected to improve and account for more than half of gross income in 2021. It is expected to decline to just under a third in 2024 as NFI grows. Other income this year was significantly impacted by the valuation loss of Al Manar's trading investments and those of QFH, and impairment taken against its investment properties.

The Company's operating expenses have been reduced through staff reduction and lower rental rates of new premises. Forecasts show operating expenses declining further in 2021 but picking up marginally from 2022 onwards. The recovery of gross income from 2021 would contribute to a good improvement in the Company's cost-to-income ratio, which would bring it closer to the 51.2% average for the period 2014 to 2018 and would also compare more favourably with the other NBFC's rated by CI in the region.

II. Supervision and Regulation

Al Manar is supervised and regulated by the CBK, the CMA and by the Ministry of Commerce. 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 CBK discount rate);
b) Maximum tenors; and
c) Repayment ability assessment.

As with other consumer lenders in Kuwait, Al Manar must report all outstanding financing 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.

III. Economic Outlook

Due to the Covid-19 fallout alongside lower hydrocarbon production, the Kuwaiti economy is expected to contract by 5% in 2020, compared to a growth of 0.7% in 2019. According to CI's baseline scenario, the economy is expected to start its gradual recovery in the last quarter of 2020 and is projected to grow by 3.4% in 2021, provided that the policymaking environment improves and hydrocarbon output increases.

In order to ease the adverse effect of the spread of Covid-19 and the related containment measures, the government formed a special committee to oversee the implementation of a moderate sized economic stimulus and social cohesion package, estimated at around 1.4% of GDP. The implemented measures depended mostly on postponing social security contributions for the private sector for 6 months, removing government fees on certain customer related sectors, extending the provision of unemployment benefits to nationals, and providing concessional long-term loans to small and medium sized enterprises through joint financing from the national SME fund and the banking sector. CI views that these measures should partially boost domestic consumption. Based on that, CI expects real output to start its gradual recovery in the last three months of 2020 – provided there is not a severe second wave of Covid19 – and is projected to grow by 3.4% in 2021.

Risks to the outlook remain very pronounced and stem from high geopolitical risk factors that could affect oil exporting capacity in the Arabian Gulf, weaker than expected global economic recovery, increasing protectionism and subdued demand for hydrocarbons. Inflationary pressures are expected to remain manageable, with the consumer price index (CPI) increasing by 1.8% in 2020 compared to 1.5% in 2019. Although declining, GDP per capita remains high at around USD 25,517 in 2020.

Kuwait enjoys the lowest fiscal breakeven oil price among GCC member states at USD61.1 per barrel as estimated by the International Monetary Fund (IMF). With hydrocarbon prices expected to average USD42.5 per barrel combined with the increase in current spending on the back of the economic fallout of Covid-19, CI expects the central government budget (including investment income and transfers to the intergenerational equity fund) to post a deficit of 6.7% of GDP in FY21 (ends in March 2021), compared to a deficit 5% in FY20.

With large financial buffers and substantial room for borrowing, the public finances are expected to weather the period of low oil prices and remain in better shape than in many GCC peers. Central government debt remained low at an estimated 21.5% of GDP in FY20, however it is expected to increase to 36.5% in FY21 in view of the contraction of nominal GDP and expected higher local borrowing. At present, the government announced that it will partially finance its growing financing needs from the General Reserve Fund (GRF) as the Kuwaiti parliament is still postponing the endorsement of the new public debt law. The draft public debt law allows the GRF to directly borrow from international markets to build its buffers. CI considers that the continued delay in passing the debt low could deplete the reserve assets in the GRF towards October 2020 and trigger a draw down on the assets of the Future Generations Fund (FGF) as the Kuwaiti authorities prepared a backup plan allowing the GRF to borrow directly from the FGF to cover its financing needs.

Government financial assets are substantial and include the investments of the two state oil funds. The actual level of government assets is uncertain as public disclosure of reserve fund assets is prohibited by law, but is estimated at 410% of GDP at end 2019 by the IMF.

The current account balance is expected to turn negative – ending decades of large surpluses – mainly due to significantly lower oil export receipts, as the deficit is expected to average 8.6% GDP in 2020-21. Gross external debt, which is mostly owed by the private sector, is moderate at around 70.4% of GDP (107.6% of CAR) and dwarfed by the government's external assets. The official foreign currency reserves of the central bank (which do not include the assets of the GRF and FGF) increased in May 2020, reaching around USD42bn and providing 8 months coverage of imports of goods and services. The substantial stock of foreign reserves cushions the economy from market volatilities and anchors the stability of the KWD. Reserve adequacy is very strong, with official foreign exchange reserves providing approximately four-fold coverage of external debt falling due in 2020.

Real GDP growth is expected to remain positive in 2019 owing to an increase in oil production and higher non-oil growth dynamics. After an estimated growth of 2.3% in 2018, real GDP is forecast to expand by 2.5% in 2019. Growth in 2018 was lifted by an increase in oil production levels since OPEC+ members partially reversed earlier oil production cuts during the year. Kuwait's oil production is set to increase further by 2.0% in 2019, reaching over 1.1bn barrels per annum, while non-oil GDP is expected to expand by 3.0%.

In terms of finances, the government's fiscal strength is strong. The central government budget balance recorded a surplus of 11.8% of GDP in the fiscal year that ended in March 2018, up from 8.1% in FYE 2017, and is expected to remain in surplus in FY 2019 and FY 20. Taking into account investment income and excluding transfers to the intergenerational equity fund, the budget surplus is expected to reach 6.8% of GDP in FY 2019 and 8% in FY 20.

Notwithstanding the high dependence on hydrocarbons, with oil receipts accounting for over 80% of total revenue, Kuwait is still in a good position to weather any long-term period of subdued oil prices. The country enjoys a lower breakeven fiscal oil price than its GCC peers, something which increases its capacity to absorb mild price shocks. Risks related to shocks in oil prices are mitigated in the short and medium term by the large financial buffers which are estimated to exceed 460% of GDP according to the IMF. Moreover, low government debt, estimated at 22.5% of GDP in FYE 2019, provides space to smooth the needed fiscal adjustment and support growth through infrastructure spending.

Banking Sector Overview and Outlook

Despite the expected deterioration in the operating environment of the banking sector that reflects the adverse impact of the spread of Covid-19, Kuwaiti banks are expected to remain broadly sound with good asset quality and comfortable liquidity, and good capital ratios.

As of December 2019, the sector capital adequacy ratio stood at 18.5%. The sector also exhibited satisfactory overall profitability at the net income level. Although operating profitability is generally very good, cost of credit continues to be high despite very strong levels of loan loss reserve (LLR) coverage. This reflects a very conservative regulator that is keen to ensure risk reserve coverage is maintained at a high level given the uncertainties of the regional banking environment. Despite currently low NPL ratios and high LLR coverage, credit risk remains a concern for banks given the still considerable lending for equity investment and real estate purposes. Banks' direct exposure to these sectors together accounted for nearly 16% of total loans at end 2019. According to the IMF, gross NPLs increased slightly to 1.5% of gross loans in December 2019, from 1.6% in 2018. Banks had an aggregate provisioning ratio of 270% (excluding interest in suspense) in the same period.

There are also significant concentration issues in terms of both credit exposure and, more crucially, customer deposit funding – especially regarding public sector deposits. Banking system liquidity risk is however limited as 25.6% of consolidated bank assets are liquid.

The Central Bank of Kuwait (CBK) continued to closely coordinate with commercial banks to ensure uninterrupted access to financial services and ample liquidity through delaying loan payments from companies affected by the shock for six months, cap the interest rate on credit facilities to SMEs at a maximum of 2.5%, decrease the risk weights for SMEs (from 75% to 25%) in calculation of risk-weighted assets for determining capital adequacy, reduce banks' capital adequacy requirements from 12.5% to 10.5%, and reduce the regulatory Net Stable Funding Ratio and Liquidity Coverage Ratio from 100% to 85%, and the Liquidity Ratio from 18% to 15%. Additionally, CBK Increased the Loan-to-Value limits for land purchase for residential projects from 50 to 60%, for existing homes from 60 to 70%, and for home construction from 70 to 80%.

Consumer Sector Overview and Outlook

The local banks in Kuwait have reported modest growth with total assets increasing by 1.9% to KWD72.4bn at end July 2020, noticeably down from 6.0% for the full year 2019. Asset growth was largely supported by credit expansion, which rose by 3.2% to KWD37.4bn and represented a conservative 54.6% of total assets. The largest proportion of lending was to the corporate sector followed by personal loans, which accounted for 41.9% of outstanding loans at end July 2020. The bulk of personal loans relates to instalment loans (73.0%) and housing loans which are largely long-term personal loans for the repair and purchase of private homes. Consumer loans constituted a fairly low 9.2% of total personal loans.

Consumer loans are general-purpose loans with a maximum maturity of five years used for personal consumption such as car purchases, education/medical expenses, or the purchase of durable goods. The CBK has increased the loan amount to KWD25,000 from KWD15,000 in 2018, although it may not exceed 25-fold a client's salary or KWD25,000, whichever is lower. The debt servicing to income ratio (DSTI) is currently capped at 40% for employees and 30% for retirees. Some adjustments to the terms and conditions of loan contracts were also introduced. The new guidelines aim to foster competition and smooth the transfer of loans from one bank to another. Consumer spending has however moderated substantially due to the impact of the pandemic and uncertainty over public spending and revenue, policy affecting expatriates and modest wage growth. The exodus of expatriates also has a particular bearing on public spending as they account for roughly 70% of the Kuwaiti population. That said, there was an overall increase in the number of expatriates due to the recruitment of foreign blue-collar workers for infrastructure and development projects.

Source: Publicly available information including CBK.

IV. Ratings History (Past Actions)

Corporate Ratings and Outlook

	Current	Nov 2019	Nov 2018	Nov 2017
Long-Term	BB	BB	BB	BB
Short-Term	B	B	B	B
Outlook	Negative	Stable	Stable	Stable

Memo:
Sovereign Ratings – Kuwait

	Current
Long-Term Foreign Currency	AA-
Short-Term Foreign Currency	A1
Outlook Foreign Currency	Stable
Long-Term Local Currency	AA-
Short-Term Local Currency	A1
Outlook Local Currency	Stable

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

KW60

SUMMARY RATIOS		External Audit	AUD 06/2020	AUD 12/2019	AUD 12/2018	AUD 12/2017
A .	**SIZE FACTORS (KWD 000)**					
1 .	Total Assets		40,286	44,299	42,412	46,269
2 .	Net Financing Receivables		25,154	28,668	29,354	32,444
3 .	Total Equity		31,941	33,954	32,326	35,981
4 .	Tangible Net-Worth		31,941	33,954	32,326	35,981
5 .	Total Debt		6,472	7,335	6,668	6,492
6 .	Net Profit		-1,488	1,198	646	1,723
7 .	Assets Under Management					
B .	**ASSET QUALITY (%)**					
8 .	Total Assets Growth Rate		-9.06	4.45	-8.34	-6.74
9 .	FR-Loss Reserve / Financing Receivables		15.56	10.36	20.72	12.17
10 .	Non-Performing FR / Financing Receivables		24.10	15.97	19.87	16.24
11 .	FR-Loss Reserve / Non-Performing FR		64.57	64.89	104.26	74.95
12 .	Unprovided Non-Performing FR / Total Equity		7.96	5.28		4.18
13 .	FR-Loss Provision Charge / Financing Receivables		-5.41	2.14	-1.03	0.55
C .	**CAPITAL AND LEVERAGE**					
14 .	Total Equity Growth Rate (%)		-5.93	5.04	-10.16	0.50
15 .	Total Equity / Total Assets (%)		79.29	76.65	76.22	77.76
16 .	Leverage (Times)		0.26	0.30	0.31	0.29
17	Leverage - Excluding Minority Interest (Times)		0.26	0.30	0.31	0.29
18 .	Total Liabilities / Tangible Net-Worth (Times)		0.26	0.30	0.31	0.29
19 .	Long-Term Debt / Total Equity (Times)		0.05	0.07	0.11	0.05
20 .	Total Debt / Total Equity (Times)		0.20	0.22	0.21	0.18
D .	**LIQUIDITY AND COVERAGE**					
21	Current Ratio (Times)		4.11	3.71	4.17	3.31
22 .	Cash + QI + ST Gross FR / ST Debt (Times)		3.41	4.56	4.74	3.78
23 .	Cash & Quoted Investments / Total Assets (%)		3.80	2.50	3.75	4.58
24 .	Cash & Quoted Investments / Total Liabilities (%)		18.32	10.71	15.79	20.61
25 .	Net Financing Receivables / Total Assets (%)		62.44	64.72	69.21	70.12
26 .	Net Financing Receivables / Total Liabilities (%)		331.12	311.03	351.72	355.31
E .	**PROFITABILITY (%)**					
27 .	Return on Average Assets (ROAA)*		-7.04	2.76	1.46	3.59
28 .	Return on Average Equity (ROAE)*		-9.03	3.61	1.89	4.80
29 .	Funding Cost*		5.47	6.27	5.94	5.03
30 .	Financing Income on Average Earning Assets*		8.01	10.33	9.96	9.36
31 .	Financing Differential*		2.54	4.06	4.02	4.33
32 .	Non-Financing Income / Gross Income		-14.13	1.57	2.85	17.93
33 .	Operating Expenses / Gross Income		84.93	79.89	64.92	51.51
34 .	Operating Profit Growth Rate		-77.42	-46.89	-40.57	-7.97
35 .	Operating Profit / Average Assets		0.29	1.27	2.34	3.64
36 .	Risk Provisioning Charge / Operating Profits		-1,295.75	124.00	-36.90	0.64
37 .	Realized Income / Gross Income		100.00	100.00	100.00	100.00
38 .	Dividend Payout Ratio					91.73
F .	**INVESTMENT**					
39 .	Market Capitalization (KWD 000)					
40 .	Share Price (KWD)					
41 .	Earnings Per Share (KWD)		-0.005	0.004	0.002	0.006
42 .	Earnings Per Share Growth (%)		-224.19	85.36	-62.49	2.37
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)		0.306	0.305	0.304	0.302
.	Inflation Rate (%)					

*Annualised ratios for June 2020

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	06/2020	AUD	AUD	AUD	AUD	Growth (%)				Breakdown (%)			
BALANCE SHEET - ASSETS (KWD 000)	**USD 000**	**06/2020**	**12/2019**	**12/2018**	**12/2017**	**06/2020**	**12/2019**	**12/2018**	**12/2017**	**06/2020**	**12/2019**	**12/2018**	**12/2017**
Cash & Banks	4,998	1,529	1,108	1,592	2,121	37.97	-30.40	-24.93	-60.66	3.80	2.50	3.75	4.58
Net Financing Receivables	82,231	25,154	28,668	29,354	32,444	-12.26	-2.34	-9.52	-0.27	62.44	64.72	69.21	70.12
Other Receivables													
Prepayments & Accruals													
Investments	39,036	11,941	12,847	11,157	11,099	-7.05	15.15	0.53	-2.68	29.64	29.00	26.31	23.99
Net Fixed Assets					56			-100.00	-17.58				0.12
Due From Associates													
Goodwill & Other Intangible Assets													
Other Assets	5,432	1,662	1,675	308	550	-0.80	444.26	-44.07	151.87	4.12	3.78	0.73	1.19
TOTAL ASSETS	**131,697**	**40,286**	**44,299**	**42,412**	**46,269**	**-9.06**	**4.45**	**-8.34**	**-6.74**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.

External Audit	06/2020	AUD	AUD	AUD	AUD	Growth (%)				Breakdown (%)			
BALANCE SHEET - LIABILITIES (KWD 000)	**USD 000**	**06/2020**	**12/2019**	**12/2018**	**12/2017**	**06/2020**	**12/2019**	**12/2018**	**12/2017**	**06/2020**	**12/2019**	**12/2018**	**12/2017**
Short-Term Debt	15,786	4,829	4,854	3,167	4,519	-0.52	53.27	-29.91	-33.58	11.99	10.96	7.47	9.77
Short-Term Payables	501	153	1,119	1,389	1,422	-86.31	-19.39	-2.38	73.76	0.38	2.53	3.27	3.07
Prepayments & Accruals	1,608	492	691	747	1,260	-28.82	-7.54	-40.70	19.45	1.22	1.56	1.76	2.72
Long-Term Debt	5,370	1,643	2,481	3,501	1,973	-33.78	-29.13	77.39	-52.31	4.08	5.60	8.25	4.27
Long-Term Payables													
Reserve for Retirement Pay & Insurance													
Due To Unc. Subsidiaries & Associates	0	0	0	0	0								
Other Liabilities	4,015	1,228	1,200	1,282	1,113	2.37	-6.43	15.15	11.66	3.05	2.71	3.02	2.41
TOTAL LIABILITIES	**27,280**	**8,345**	**10,345**	**10,086**	**10,289**	**-19.33**	**2.57**	**-1.97**	**-25.51**	**20.71**	**23.35**	**23.78**	**22.24**
EQUITY:													
Equity Attributable To Shareholders of Parent Co.													
Share Capital	100,931	30,875	30,875	30,875	30,875					76.64	69.70	72.80	66.73
Share Premium	1,020	312	312	312	312					0.77	0.70	0.74	0.67
Less: Treasury Shares													
Statutory Reserve	6,540	2,001	2,001	2,001	2,001				9.62	4.97	4.52	4.72	4.32
Voluntary Reserve	764	234	1,629	1,199	1,414	-85.65	35.88	-15.23	-1.95	0.58	3.68	2.83	3.06
General Reserve													
Cumulative Change in Fair Value													
Gain on Sale of Treasury Shares													
Foreign Currency Translation													
Proposed Dividend													
Retained Earnings	-4,863	-1,488	-870	-2,068	1,372	70.93	-57.92	-250.80	2.35	-3.69	-1.96	-4.88	2.96
SUB-TOTAL	**104,392**	**31,934**	**33,946**	**32,318**	**35,973**	**-5.93**	**5.04**	**-10.16**	**0.50**	**79.27**	**76.63**	**76.20**	**77.75**
Minority Interest	25	8	8	8	8					0.02	0.02	0.02	0.02
TOTAL EQUITY	**104,417**	**31,941**	**33,954**	**32,326**	**35,981**	**-5.93**	**5.04**	**-10.16**	**0.50**	**79.29**	**76.65**	**76.22**	**77.76**
TOTAL LIABILITIES & EQUITY	**131,697**	**40,286**	**44,299**	**42,412**	**46,269**	**-9.06**	**4.45**	**-8.34**	**-6.74**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	06/2020	AUD	AUD	AUD	AUD	Growth (%)				% of Average Total Assets			
PROFIT AND LOSS ACCOUNT (KWD 000)	**USD 000**	**06/2020**	**12/2019**	**12/2018**	**12/2017**	**06/2020**	**12/2019**	**12/2018**	**12/2017**	**06/2020**	**12/2019**	**12/2018**	**12/2017**
Interest Income / Financing Income	3,697	1,131	3,136	3,263	3,393	-63.94	-3.91	-3.81	-9.13	2.67	7.23	7.36	7.08
Interest Expense / Financing Expense	-617	-189	-439	-391	-439	-56.99	12.26	-10.83	-42.15	-0.45	-1.01	-0.88	-0.91
NET INTEREST INCOME / NET FINANCING INCOME	**3,080**	**942**	**2,697**	**2,872**	**2,954**	**-65.07**	**-6.11**	**-2.77**	**-0.72**	**2.23**	**6.22**	**6.48**	**6.16**
Fees & Commission Income			235	247	230	-100.00	-4.86	7.37	21.52		0.54	0.56	0.48
Rental Income	363	111	50	198	142	123.51	-74.95	39.54	10.16	0.26	0.11	0.45	0.30
Dividend Income	262	80	96	-2	82	-16.67	-6190.32	-101.92	-31.66	0.19	0.22	0.00	0.17
Foreign Exchange Income													
Investment Income	-1,246	-381	-500	-529	71	-23.83	-5.37	-844.20	263.64	-0.90	-1.15	-1.19	0.15
Share of Results of Unc. Subsidiaries & Associates													
Profit on Sale of Unc. Subsidiaries & Associates													
Other Income	240	73	163	170	120	-54.89	-4.19	41.43	-32.00	0.17	0.38	0.38	0.25
NON-INTEREST INCOME / NON-FINANCING INCOME	**-381**	**-117**	**43**	**84**	**645**	**-371.20**	**-48.97**	**-86.94**	**1.68**	**-0.28**	**0.10**	**0.19**	**1.35**
GROSS INCOME	**2,698**	**825**	**2,740**	**2,956**	**3,599**	**-69.87**	**-7.33**	**-17.86**	**-0.29**	**1.95**	**6.32**	**6.67**	**7.51**
General & Administrative Expense	2,292	701	2,164	1,888	1,823	-67.60	14.62	3.56	8.19	1.66	4.99	4.26	3.80
Lease / Rental Expense													
Depreciation & Amortization			25	32	31	-100.00	-19.69	2.10	9.09		0.06	0.07	0.06
Other Expenses													
OPERATING EXPENSES	**2,292**	**701**	**2,189**	**1,919**	**1,854**	**-67.98**	**14.05**	**3.53**	**8.20**	**1.66**	**5.05**	**4.33**	**3.87**
OPERATING PROFIT	**407**	**124**	**551**	**1,037**	**1,745**	**-77.42**	**-46.89**	**-40.57**	**-7.97**	**0.29**	**1.27**	**2.34**	**3.64**
Provisions For Doubtful Financing Receivables	-5,270	-1,612	683	-383	202	-336.00	-278.46	-289.38	-137.60	-3.81	1.58	-0.86	0.42
Other Provisions					-191			-100.00	156.71				-0.40
GROSS PROFIT	**-4,863**	**-1,488**	**1,234**	**654**	**1,757**	**-220.56**	**88.55**	**-62.74**	**36.74**	**-3.52**	**2.85**	**1.48**	**3.66**
Extraordinary Items					-16			-100.00	-103.81				-0.03
Taxes			-36	-8	-18	-100.00	341.13	-54.39	10.19		-0.08	-0.02	-0.04
NET PROFIT (LOSS)	**-4,863**	**-1,488**	**1,198**	**646**	**1,723**	**-224.19**	**85.36**	**-62.49**	**2.37**	**-3.52**	**2.76**	**1.46**	**3.59**
APPROPRIATION OF SURPLUS:													
Attributable To Minority Interests													
Dividends					1,544			-100.00					
Transfer To Equity	**-4,863**	**-1,488**	**1,198**	**646**	**179**	**-224.19**	**85.36**	**260.80**	**28.69**				
Bonus Shares Issued													
Changes In Equity Not Through P&L	**-6,580**	**-2,013**	**1,628**	**-3,655**	**179**	**-223.62**	**-144.54**	**-2140.63**	**28.69**				

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General Contact Information

Capital Intelligence Ratings Ltd, PO Box 53585, 3303 Limassol, Cyprus

+357 2526 0000

marketing@ciratings.com

www.ciratings.com

Report Code: KW06019COP00-01