BANK RATING

Al Manar Finance and Leasing Company K.S.C (Closed)

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Corporate Rating Report

Al Manar Finance and Leasing Company K.S.C. (Closed)

Kuwait

June 2005

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AL MANAR FINANCE AND LEASING COMPANY K.S.C. (Closed)

Kuwait
June 2005

CORPORATE RATING		
	Rating	*Outlook*
	L/T: BB- S/T: B	**Positive**
ANALYSTS	**TELEPHONE**	**E-MAIL**
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AUDITED BALANCES AT FYE:

KWDmn	12/04	12/03
Total Assets	33.0	-
Total Capital	30.2	-
Borrowings	-	-
Net Instalment Rec	15.5	-
Net Profit	0.2	-

CI RATIOS AT FYE:

%	12/04	12/03
NPL Ratio	NA	-
Provision Coverage	NA	-
Leverage	0.09	-
Total Capital/Total Assets	91.55	-
Expenses/Gross income	70.59	-

POSITIVE FACTORS

- Good initial asset quality
- Solid capital base
- Already operating profitably

NEGATIVE FACTORS

- Short operating history
- Small balance sheet size, although this is growing rapidly
- Availability of adequate external funding could be a constraint on growth in the medium term

PROFILE Al Manar Finance and Leasing Company K.S.C. (Closed) was established in November 2003. Al Manar is not listed on the KSE. The main shareholders are Global Investment House with 22.19% and Wafra International Investment Company with 15%. There are currently approximately 67 employees. The Company's main area of activity is as a provider of consumer finance, largely for the purchase of automobiles although the company also makes cash loans to consumers as well as providing real estate and vehicle fleet financing for business customers.

RATING The main constraints on the rating of the Company are its relatively small size and its limited trading history. The question of size should resolve itself fairly rapidly; the asset growth targets that have been set out in the business plan are ambitious. However, as long as the necessary external funding is available, the targets should be achievable given a buoyant domestic economy and strong demand for consumer credit facilities. The limited trading history is a rather stronger constraint in that it takes at least three years for asset quality trends to become apparent for a financing company. Although Al Manar has excellent asset quality at present, this is to be expected in a portfolio where most facilities have been only recently extended. Current asset quality is therefore not necessarily an accurate guide to probable asset quality in the future. That said, the senior management team has a strong track record in this industry in Kuwait, and loan underwriting methodologies and collection procedures are sound. Capital resources are satisfactory while the ability of the company to record a profit during its initial operating period is encouraging. CI assigns initial corporate ratings of BB- long term and B short term to Al Manar. A positive outlook is assigned reflecting the probable growth in business volumes over the next twelve months.

NON-FINANCIAL FACTORS

BACKGROUND

Al Manar Finance & leasing Company was established in November 2003. However there were some early difficulties in beginning operations. These led to management changes, and some delay to the beginning of actual trading. The Company operates on an Islamic basis. Its main activity is the provision of finance facilities for consumers in Kuwait.

OWNERSHIP

The main shareholders are as follows:

Global Investment House	22.19%
Fifth Economic Advisory Holding Company	19.64%
Sixth Economic Advisory Holding Company	11.64%
Wafra International Investment Company	15.00%
ISKAN	10.00%

ORGANISATIONAL STRUCTURE

The senior manager in the Company is the General Manager. He reports directly to the Board, as does Internal Audit. At the next level are two Assistant General Managers who report to the GM. The General Manager was previously General Manager at International Finance Company, a long established non-Islamic consumer finance company in Kuwait. He spent twenty years with the company, including eight as General Manager. One of the AGMs was previously SVP at Kuwait Financing Services Company, another non-Islamic consumer finance lender in Kuwait that was established in 2000. Previously he was at Al-Mulla Group and before that at a Kuwaiti commercial bank. In all, he has fifteen years of lending experience, including the establishment of denovo consumer lending operations.

Reporting to the first AGM are the Marketing Division, the Credit Division and the Credit Control Division. Reporting to the second AGM are the separate functions of HR, Accounts, IT and Follow-up and Collection. Although not shown on the organisation chart, there is a three person Legal Department comprising a manager, a lawyer and a part time legal advisor. The main functions of the departments are to (a) prepare legal cases for submission to the courts by external counsel and (b) to review and improve in-house legal documentation. The Legal Department is also responsible for liaison with the Company's Sharii'a Board advisors.

SUPERVISION & REGULATION

Al Manar is supervised and regulated by the Central Bank of Kuwait and by the Ministry of Commerce. The Company submits monthly reports to the central bank of Kuwait in a similar manner as with the 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.

Apart from non-applicability of ratio requirements related to customer deposits, Al Manar follows the common regulatory requirements for consumer lending in Kuwait. These apply to all lenders, bank and non-bank. The main areas covered are:

a) Maximum interest rates (related to the central bank discount rate).
b) Maximum tenors.
c) Repayment ability assessment.
d) Maximum advance (KWD10K).

The regulatory regime in Kuwait includes regular on-site inspections as well as on-going off-site supervision. The Company submits a range of monthly and quarterly reports to the central bank.

At present Al Manar is not quoted on the KSE. If the Company does seek a quotation in the future it will need to also adhere to the rules and regulations of the Kuwait stock exchange. 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.

INTERNAL CONTROLS

Internal audit functions are handled both in-house by a full time internal auditor and (since 2004) by Ernst & Young, with regard both to central bank regulations and the Company's own internal policies and procedures. The Internal function reports directly to the Board.

SUPPORT

As a non-bank, Al Manar would not enjoy the same likelihood of governmental support as a deposit-taking institution. However the Company does have a strong shareholding group that would certainly have the ability to provide support should this be needed.

STRATEGIES

At this early stage of operations, the corporate strategy is concentrated on growing instalment receivables volumes together with the funding base required to support the planned asset growth. Although the Company will hold both trading and (possibly in due course) available for sale investments, these are unlikely to constitute a large part of the asset base.

THE CONSUMER FINANCE MARKET IN KUWAIT

The total consumer credit market in Kuwait is now estimated to exceed KWD3 billion. However this total would include all forms of credit to consumers, including residential mortgages and credit card balances. The narrower markets in which Al Manar operates are chiefly for the financing of consumer durables (largely passenger vehicles), cash loans, loans for real estate and vehicle fleet financing.

There are a number of providers in the consumer part of the business base apart from Al Manar. These currently fall into five main groups; Commercial Facilities Company, other non-Islamic consumer finance companies, the six commercial banks (plus the Bank of Bahrain and Kuwait branch), Kuwait Finance House and the Islamic Finance Companies. Precise data is difficult to obtain (the commercial banks do not separate consumer lending from other exposure to the personal sector). CI has however managed to obtain approximate data for the auto loans made by seven of the non-bank lenders as at mid 2004, which totalled approximately KWD1.2 billion. This indicates auto loans market shares as follows:

	%
KFH	55.8
CFC	21.6
A'Ayaan Leasing & Investment	5.3
International Finance Company	5.2
The Investment Dar	4.7
Osoul Leasing & Finance Company	3.7
KFIC	3.7

It should however be borne in mind that at some lenders (such as CFC and KFH) the overwhelming bulk of the portfolio is made up of facilities for the purchase of automobiles. At others (such as KFIC and The Investment Dar, there is a rather larger proportion of lending for other purposes (and thus perhaps a somewhat higher market share overall). Al Manar will in due course fall into this group. Nonetheless the above data gives a rough impression of scale, if only in the auto lending segment in existing portfolio terms. This latter qualification is important. Both KFH and CFC in particular are long established organisations. Their market shares therefore reflect the size of the historical portfolio. The newer companies may well therefore have a larger share of new lending that the above percentages might imply.

MARKET POSITION OF AL MANAR

The presence of a strong Islamic alternative to conventional financing structures alters the dynamics of the market. Potential customers are unlikely to actively swap back and forth between the Islamic institutions and the conventional lenders. It can therefore be argued that there are in reality two separate markets in Kuwait. In one the Islamic Finance Companies compete with Kuwait Finance House and among themselves while in the other Commercial Facilities Company competes with IFC, Kuwait Finance & Investment Company and other smaller consumer finance lenders as well as with the commercial banks. As an Islamic institution, Al Manar’s main competition will come from other providers of credit that operate on a Sharii’a compliant basis, in particular KFH, the Investment Dar and A’Ayaan Leasing & Investment. The newly established Bubiyan Islamic Bank will also be a competitor in due course.

As at end 2004 Al Manar had a customer base of 1,603. By the end of Q1 2005 this had risen to 2,805. As at end April the total had increased further to 3,229.

BUSINESS PLAN

The business plan is based on three main market segments. These are as follows:

Consumer lending
Real Estate Lending
Fleet lending

Consumer lending is in turn further subdivided into: -

Lending for the purchase of new vehicles
Lending for the purchase of used vehicles
Cash lending on an Islamic basis (Tasaheel)

Consumer lending

- **Vehicle Purchase** Loans for the purchase of new vehicles and loans for the purchase of used vehicles are similar in structure. The main differences are that the tenors of used car loans will typically be shorter while the cost to the customer will be marginally higher. Average loan amounts will normally also be lower reflecting the lower cost of a used vehicle. All vehicles are effectively mortgaged in favour of Al Manar by means registration of the charge at the traffic department. Maximum tenor is 60 months.
- **Cash Loans** These loans will typically be rather shorter in tenor than vehicle purchase loans. They will also be rather more expensive to the customer. Maximum tenor is 36 months.

Real Estate Lending

Real Estate loans are (unlike vehicle purchase or cash loans) intended for Kuwaitis only, either individuals or local companies. All real estate lending will require a first mortgage on the property. For income producing investment property the minimum collateral coverage level is currently 150%. For raw land the minimum collateral coverage is currently 200%. Loans are not extended for private dwellings. The maximum tenor is 15 years.

Although such lending is fully secured and therefore low risk, the returns are rather lower than either consumer lending or the fleet business. The intention is therefore to give this type of business less emphasis going forward.

Fleet Lending

These are loans designed to finance vehicle fleets for local Kuwaiti companies. All borrowers under this programme must be companies with a sound financial position, strong owners or partners and properly audited financials. Vehicles will be mortgaged to Al Manar as well as being insured (fully comprehensive) in favour of Al Manar. The maximum tenor is 48 months.

Funding As at end-April 2005, Al Manar had only one external funding line in place. Of this line of KWD4mn, KWD1.8mn was utilised. However a number of other lines have either been subsequently put in place or are at an advanced stage of negotiation, including an already signed KWD5mn wakala agreement with from KFH and a pending KWD15mn three-year facility Global Investment House. Lines (on an Islamic basis) are also being discussed with three Kuwaiti commercial banks. Al Manar expects to have lines in place totalling at least KWD30mn by the end of this year.

OPERATIONS

Lending Policies and Procedures The Company has clearly documented lending policies and procedures. Details have been provided to CI. These policies lay down limits on amount and tenor and stipulate acceptable forms of security.

Collection Procedures For instalments that are past due for periods up to three months, the Company has a letter-based collection follow up procedure, supplemented by telephone calls. At three months past due, legal action is taken.

PROSPECTS

Although Al Manar is still a small player in a market that contains some heavyweight competition, customer demand is strong. This in turn has meant that consumer lenders have not had to compete too strongly in terms of pricing. With margins not coming under any significant pressure, asset quality should also be maintained at a fairly stable level as long as underwriting standards for new business are good. The relative youth of the Company however means that it will take some time for asset quality trends to become established. With demand for consumer credit strong, and likely to remain so given the favourable demographic profile of the population in Kuwait the main constraint on business growth is likely to be funding. As long as the Company can continue to grow its funding base, it should be able to continue to grow its portfolio and thus its profits.

ECONOMIC OUTLOOK

Effect of Current and Projected Economic Conditions. Given the structure of the economy, performance still depends on the prosperity of the oil and gas sector. Although Kuwait has large oil reserves, reserves and supplies of gas are limited. This is a potential problem, as gas is needed for the growing petrochemical industry and for electricity generation. There are plans to import gas from Iran and from Qatar. In December 2004, Kuwait and Iraq agreed a 200 million cubic feet per day contract. This will come in two phases. The first 35mn cubic feet per day will start arriving in October 2005 with the remainder coming on stream in 2007. Increased supplies of gas would allow Kuwait to reduce its current use of oil in electricity generation, desalination and petrochemicals, freeing up an estimated additional 100,000 bpd of oil for potential export.

Oil production is much more important for Kuwait. The country currently has a sustainable production capacity of around 2.5mbd. However currently ongoing expansion projects should raise capacity to 2.7mbd. The government has a longer-term aim of raising output capacity to a possible 5mbd by 2020. Part of this increase is intended to come from an increase of output at five northern wells from 0.6mbd to 0.9mbd using foreign oil company expertise. This project would cost around USD7 billion. Actual production levels averaged 2.04mbd in 2001 and (after OPEC production cuts) 1.89mbd in 2002. In the run up to the start of the Iraq war, production was raised to 2.1mbd in Q1 2003 and the average for the year as a whole was 2.17mbd. In 2004 output increased further to an estimated level of around 2.34mbd.

Kuwait was also an early investor in refinery capacity. Before the 1990 Iraqi invasion, Kuwait had refinery capacity for 820,000 bpd, most of which was exported. During the occupation, much of this capacity was badly damaged but over the subsequent years Kuwait again rebuilt capacity to 900,000 bpd. A number of projects are underway to update and improve refining capacity under a KWD900mn five-year plan. Construction of a fourth refinery is under consideration. In addition to refining, Kuwait has also entered the petrochemical market. The Equate I complex came on line in 1997 includes a 650,000 metric tonnes per year ethylene cracker, two polyethylene units with an aggregate annual capacity of 450,000 metric tonnes and a 350,000 metric tonnes per year ethylene glycol unit. Construction of an Equate II plant is now getting underway while PIC is to build a USD1.4 billion aromatics plant. Equate II will have the annual capacity to produce 850,000 tonnes of ethylene, 600,000 tonnes of ethylene glycol and 450,000 tonnes of polyethylene.

GDP

Once again the oil sector dominates, making up 46.6% of GDP in 2003. The largest component of non-oil GDP is made up of government contributions, partly in the form of subsidies and what is believed to be expenditure on other sensitive state-related services. However, it is important to note that the government's share in overall GDP is higher than as reported in official statistics. Indeed, the private sector is defined by the central bank as 'individuals, institutions and companies belonging to private, joint or public sectors, including public institutions with independent budgets'. Accordingly, it is estimated that the state probably contributes directly and indirectly to nearly three-quarters of GDP.

Figures for 2004 are not yet available. However research estimates by one Kuwaiti investment house show a GDP of KWD14.3 billion (USD48.5 billion). This translates into a growth rate of 14.9%. For 2005 rates of growth are likely to be much lower – the gains from higher oil prices are already in the numbers. Even if oil prices do not slip, the room for increasing output is limited by technical factors as well as OPEC quota. The estimate is for growth in GDP of just 2.9%.

Foreign Trade Kuwait, by virtue of its huge oil reserves and high oil exports, normally derives large surpluses on its balance of trade. In times of relatively high oil prices, the trade balance soars but the reverse is true during periods of low oil prices. The trade surplus reached its earlier peak in 1996 (USD6.5 billion), with exports covering imports to the tune of 178%. The surplus also stayed high in 1997 as the full effect of lower oil prices started showing only the following year. With oil prices crashing in 1998, the trade balance deteriorated significantly. Similarly, the recovery in oil prices following the March 1999 OPEC agreement led to a much higher surplus in 1999 and a new record surplus in 2000. A smaller quota and lower prices reduced the level of surplus in 2001 and again in 2002 but it still remained large in historical terms. The rise in oil prices in 2003 pushed oil export proceeds up by 32.5% and helped to raise the trade surplus by over 50%.

If 2003 was good, 2004 was even better. Oil prices rose to record levels, as did output with the relaxation in production limits imposed under OPEC agreements. Although the export price for Kuwaiti crude (at around USD34 per barrel at present) is rather lower than the headline numbers for WTI or Brent, the percentage increase has been similar. Although full year figures are not yet available, the trade surplus for the first nine months was KWD3,569mn. Annualised this would indicate a probable surplus for the full year of somewhere in the region of KWD4.7 billion.

Efforts by the government to increase non-oil exports have yielded limited results and although such exports have grown, they remain limited in volume terms. The emphasis has been on petrochemical products, particularly through the Equate petrochemical complex that opened in late 1997. This was reflected in the 40% rise in the value of non-oil exports in 1998. The strong upturn in the petrochemical cycle has helped to raise the value of these exports and this has been reflected in the higher non-oil export figure in 2003 and the KWD495mn figure for the first nine months of 2004. Further expansion in the petrochemical industry in Kuwait should help to increase non-oil exports further in coming years. Re-exports to Iraq (a significant trade before the Iran-Iraq war) could also take on added importance should security conditions improve in that country.

Export prospects for 2005 are still favourable. The international benchmark oil prices remain firm, driven by strong and sustained demand from India and China in particular. However output may have to be trimmed if OPEC is to maintain its firm control on pricing. There is also always a possibility that oil prices may soften later in the year although this is seen as being unlikely on current trends. Non-oil exports should also remain firm. Imports are expected to grow however as the heavy spending phase of a number of large projects arrives. Despite this, a trade surplus in the region of KWD3.0 billion remains the likely outcome.

The current account balance fell in both 2001 and 2002 from the record high of KWD4.5 billion in 2000. The 2001 surplus was KWD2.6 billion while that for 2002 was KWD1.3 billion. Even at this reduced level it was equivalent to 12% of GDP. Apart from the reduction in oil export receipts, other contributing factors were higher imports, an increasing deficit on the services account and much lower investment income. The latter dropped from KWD2.1 billion in 2000 to KWD1.5 billion in 2001 and then again to KWD1.0 billion in 2002. Performance in 2003 was much stronger, as might be expected with higher oil revenues. The current account surplus rose to KWD2.3 billion or 36% of GDP. Again no figure for 2004 is available. However if the trade surplus does turn out to be KWD4.7 billion, this would imply a current account surplus in the region of KWD3.0 billion.

Public Finance Kuwait has consistently posted a fiscal surplus every year since fiscal 1998-99. This has been despite budgeting on the basis of a substantial deficit every year. The reason is that budgets were (until the forthcoming financial year) based on an oil price of USD15 for Kuwaiti export crude. Much higher real prices, and annual shortfalls in actual spending explain the large differences. The surpluses for 2002/03 and for 2003/04 were KWD1.3 billion and KWD2.2 billion respectively.

It should again be emphasised that the budget deficit predicted for 2004-05 are those for the approved budget. They were based (as for previous years) on an oil price rather lower than the actual price at USD15 and therefore once again substantially understate oil income. Figures for the first six months of the budgetary year actually show oil income as having been KWD4.0 billion and total income KWD4.3 billion. Expenditure was only KWD1.9 billion, leaving a surplus of KWD2.4 billion. Given the strong first half performance, there is now an expectation of a record budget surplus in the region of KWD4.0 billion. Actual Q3 performance was income of KWD2.3 billion and expenditure of KWD1.0 billion.

The above figures are before allocations to the Reserve Fund for Future Generations (RFFG). The government is obliged to transfer 10% of oil income into this fund. The percentage may soon be increased to 15%.

The draft budget for the forthcoming fiscal year has been prepared on the basis of an oil price of USD21. While a little more realistic than the USD15 used in the past, it is still likely to underestimate the actual prices that Kuwait achieves. Under the draft budget, oil income is forecast at KWD3.9 billion and total income at KWD4.6 billion. Expenditure is set at KWD6.9 billion leaving a deficit of KWD2.3 billion. In reality, CI expects another budget surplus, although perhaps at a lower level than in the current fiscal year.

Outlook Following the conclusion of the Iraq war, and despite the ongoing lack of security in the country Kuwait continues to be in an enviable position. Contrary to earlier fears, the war has not been followed by a softening of oil prices. On the contrary, supply constraints and high and rapidly growing demand from Asia had led to a period of sustained very high oil prices. As a result, there has been no need to reduce OPEC production quotas and Kuwait is therefore benefiting from both relatively high output levels and firm prices. Although the flow of UN compensation monies has been greatly reduced, Kuwaiti businesses are in a good position to benefit from the reconstruction process in Iraq as it is the logical logistics centre for much of the supply effort, especially for southern Iraq.

Despite the current favourable conditions, some negatives remain. The country continues to depend heavily on crude oil for its survival and only limited efforts have so far been made to diversify the economic structure. Instead, the focus has been on building long-term investments outside the country, which become a vital source of revenue when oil revenues are soft. Moreover, the country continues to offer its citizens a particularly generous welfare system, which it has so far been unwilling to streamline due to political factors. Consequently, there is not much flexibility in terms of cuts in the current expenditure side of the budget. For the coming year, this will continue to be something of limited immediate importance, as the economy should again perform strongly. Nonetheless all markets are cyclical and continued strong oil prices cannot be assumed in the medium term. Demographics are a further cause of concern. With almost 42% of the national population under the age of 15, there is likely to be a surge in the number of young nationals entering the jobs market over the next five years. With almost the entire national workforce employed by the public sector, there is clearly very limited capacity to absorb these new entrants to the jobs market. Quite where the jobs will come from remains to be seen unless there are much more effective efforts made to develop a meaningful private sector (and to get the private sector itself to employ more Kuwaitis).

Other areas that might cause problems in the future are the stock exchange and consumer finance. After a poor period from 1998 to 2000, prices have subsequently risen strongly. The general index rose from 1348.1 at end 2000 to 1709.4 at end 2001 and then again to 2375.3 at end 2002. The market more than doubled in 2003. Although performance was a little less frenetic in 2004, the rise was 33.8%. Strong conditions persisted into the first months of 2005, and the KSE index as at end April was up by 34.97% on the year, a little below the all time high achieved earlier in April 2005.

Note: The KSE is not a weighted index. The rises in the various weighted indices provided by a number of investment companies are somewhat lower than the headline rises in the KSE.

Should the index fall, or even stagnate there could be problems. Although P/E multiples are not high by international or GCC standards, investment income is an important component of revenues for most non-financial firms. In some cases it dwarfs core revenues. A dull KSE could therefore impact earnings quite widely, perhaps putting downward pressure on share prices.

Although there has been a recent flurry of incidents with militants, including a number of armed clashes, security is not seen as a major concern, at least at present.

FINANCIAL ANALYSIS

ASSET COMPOSITION

As Al Manar is still a fairly young company, its balance sheet structure was fairly simple at end 2004. On the liability side there is little apart from capital. On the assets side there are mainly investments and trade receivables (instalment credits).

Cash and Cash Equivalents The KWD3.1mn was placed with banks and financing institutions.

Investments in Murabaha and Wakala These were essentially placements of surplus liquidity with other institutions using Islamic structures. These investments ran off in Q1 2005 and were not renewed as the funds we used to fund new financing facilities.

Investments held for Trading These included a series of investments in Islamic Money Market funds (KWD7.4mn), a real estate fund (KWD0.2mn) and local listed shares (KWD0.8mn). There was also a KWD1.6mn investment in Gulf Takaful Insurance Company, giving Al Manar a 10% stake. The remaining KWD1.1mn represented an investment in the newly established Al Razi Holding Company. Al Razi is to operate as a health care company. Management has informed CI that the money market fund investments have now been redeemed and the local quoted equities sold.

Instalment Credit Receivables These are shown as Trade Receivables on the balance sheet. As the Company is still at an early stage of its operations, the book was fairly small at KWD15.9mn (gross – KWD15.4mn net) at end 2004. At this stage Al Manar lends mainly to Kuwaitis. Portfolio composition was as follows:

New Vehicles	42%
Used vehicles	35%
Tasaheel	6%
Real estate	3%
Fleet	14%

Asset Quality As the operating history is so short, the portfolio is (a) small and (b) very recent in credit extension. Longer term asset quality trends have therefore still to make themselves apparent. As at end 2004 specific provisions totalled only KWD20K. This in turn implies non-performing facilities of a maximum of KWD0.1mn (using a 20% provisioning ratio). General provisions were KWD0.3mn and were based on the statutory 2% of performing instalment receivables.

Investment in Unconsolidated Subsidiary This KWD50K investment represented Al Manar's 99% holding in United Tasahil Real Estate Company. This Company is to be used as the vehicle by which Al Manar may invest in real estate. Al Manar itself cannot (as a financing company) invest in real estate directly.

LIABILITIES COMPOSITION

Capital As at end 2004 Al Manar had not needed to obtain any external financing. The asset base of the company was therefore largely financed by the paid in equity of KWD30mn plus accumulated reserves and retained earnings of KWD0.2mn.

Creditors and Other Credit Balances Apart from capital, this was the only entry on the liability side of the balance sheet at end 2004 of any size at KWD2.8mn. Of the total, trade payables represented KWD2.7mn. These trade payable were in turn largely made up of amounts due to car dealers. These payables arise from the business process at Al Manar whereby the Company buys the vehicle and then on-sells to the customer using an Islamic structure.

Funding Although Al Manar had no external funding as at end 2004, this will change during the course of 2005. Negotiations are currently underway on a number of facilities from banks and finance houses. By end 2005, it is possible that available external funding resources may reach KWD35mn. As at end April 2005, short term lines totalling KWD4mn were in place, provided by the new Bubiyan Islamic Bank.

Liquidity The current ratio as at end 2004 was around 5.1. While a very strong ratio, this essentially reflected the fact that the company had yet to be able to build up its loan book and therefore had surplus liquidity. Ratios in future periods are likely to be much lower.

Leverage As at end 2004 leverage was 0.09. As with liquidity, this will be an early, a typical ratio as it reflects the lack of external funding and a still high ratio of capital to total assets.

Profitability Al Manar managed to show a net profit of KWD0.2mn in its first full accounting period on revenues of KWD1.9mn. Revenues from financing were KWD0.7mn, as were revenues from murabaha and wakala investments. Investments held for trading contributed KWD0.4mn. Operating expenses were KWD1.4mn and provisions KWD0.3mn.

Q1 2005 Sales (ie new lending) in Q1 2005 were KWD13.8mn. This compared to a total of KWD17.1mn for the whole of 2004.

FINANCIAL FORECASTS

The following forecasts for the period to 2009 are based on the preliminary 2004 financial statements together with a series of assumptions. These include the following:

Tenors: 48 months for new vehicles
42 months for used vehicles
33 months for cash consumer loans (Tasaheel)
12 months for real estate loans
48 months for fleet loans

The Company has also provided CI with assumptions concerning individual transaction sizes, profit rates per transaction and ancillary fees and commissions. As these are commercially sensitive, they have not been detailed in this report.

Other assumptions cover levels of instalment debtors, interest rates and the level of investments held. Funding costs have been assumed to be equivalent to the CBK Discount Rate plus 200bp. At the time the forecasts were prepared CBK discount rate was 4.75% as against the current 5.25%. Given that new lending will generally be match funded, there should be little or no margin compression.

As well as the statutory 2% general risk provisions, the forecasts include a steady build up of specific provisions. The Company expects to gradually build these to a level of 3% of portfolio outstanding over a seven to ten year period. The forecasts assume 0.47% in 2005, 1.05% in 2006 and 1.49% in 2007.

BALANCE SHEET

2005 The Company expects strong asset growth this year with total assets more than doubling to KWD71.5mn. nearly all the increase is planned to come from a rise in the instalment credits portfolio, which is expected to increase from KWD15.5mn to KWD68.1mn. In contrast the investments held for trading portfolio will be reduced to around KWD3.0mn as investments are sold to provide liquidity to support the lending programme. Other asset classes will remain negligible.

As capital alone will be insufficient to fund this level of asset growth, external funding will be needed. Although trade payables will make a contribution in the region of KWD8.3mn, Al Manar will nonetheless require external funding. This is forecast to be KWD31.0mn by the end of 2005. With retained earnings, end 2005 shareholders funds should be KWD32.1mn.

2006 The pattern for 2006 is likely to be similar, although the pace of lending growth will be a little slower. Total assets are expected to rise to KWD95.5mn with instalment credits rising to KWD91.4mn. The bulk of the remainder would comprise the remaining investments held for trading of KWD3.8mn. This increase in assets would be funded from the same external sources as in 2005. Trade payables are expected to make a contribution in the region of KWD14.9mn, while external funding is expected to increase to KWD44.3mn by the end of 2006. With retained earnings, end 2006 shareholders funds should be KWD36.1mn.

2007 Again a similar pattern but with a further slowing of loan growth. Total assets are seen as rising to KWD113.2mn and instalment receivables rising to KWD108.4mn. These would be financed by shareholders funds of KWD41.2mn, trade payables of KWD14.8mn and external funding of KWD56.8mn.

By the end of 2009, the Company hopes to have grown the instalment receivables book to KWD137.3mn and total assets to KWD144.2mn.

Leverage The following are the forecast ratios:

2005	1.23
2006	1.65
2007	1.75
2008	1.61
2009	1.70
2010	0.34

At this time it is not possible to make meaningful forecasts of liquidity. On the asset side, the portfolio is still developing, and it is therefore difficult to gauge its maturity structure; this will alter as new business is booked. On the liability side funding arrangements are still under negotiations, and amounts and tenors are therefore not yet set.

PROFIT AND LOSS ACCOUNT

2005 To have been able to make a net profit for the first year of operation bodes well for future years although the need to add the 2% general provision on incremental performing credits will act as a brake on profit growth. During 2005, Company forecasts envisage the need to make general provisions totalling KWD0.9mn with a further KWD0.3mn in specific provisions. It should be emphasised that the specific provisioning in the forecast is on a portfolio basis rather than in reaction to any actual past dues.

Credit extensions are expected to be in the region of KWD63.3mn this year, helping to sharply increase the profit from financing to KWD4.2mn (of which, KWD2.9mn will come from credits extended during 2005). Commissions of KWD0.5mn are also expected to be generated although this increasing source of income will be offset by the falling away of investment income as the funds are redeployed into financing. Total operating revenues are forecast at KWD4.9mn.

As this year will see Al Manar begin to tap external funding for the first time, the budget shows funding costs of KWD0.9mn. As might be expected for a period of strong asset and operational growth, operating expenses will also increase this year to KWD1.4mn. Of this amount, KWD0.1mn will constitute sales and collection commissions while a further KWD0.1mn will be the expense for credit insurance. This is a standard feature of all consumer financing contracts, and is absorbed by the Company.

Net operating revenues are forecast at KWD1.4mn with an additional KWD0.4mn coming from investment income (largely from the strategic investments in other companies). Net profit is forecast at KWD1.8mn.

2006 Aggregate new credit extensions of KWD66.8mn are planned for 2006. This should help to raise instalment credit income to KWD7.8mn and commission income to KWD0.6mn. Miscellaneous other income is estimated at KWD0.2mn. Total operating revenues are forecast at KWD8.6mn. Operating expenses are expected to rise to KWD1.6mn, of which KWD0.2mn would be the cost of credit insurance. With a larger portfolio, there will be substantially increased funding costs of KWD2.8mn. Net operating revenues are forecast at KWD1.4mn net of general provisions of KWD0.4mn and specific provisions of KWD0.5mn. After investment income of KWD0.8mn, net profit is forecast at KWD4.0mn.

2007 A similar pattern is projected for 2007 with new credit extensions of KWD70.6mn and instalment credit income of KWD9.9mn. As the volume of new business shows only a limited rise in 2007, commission income will remain at the KWD0.6mn level but miscellaneous income is seen as rising to KWD0.3mn. Total operating revenues are seen as reaching KWD9.9mn. With the Company's operations reaching a more mature stage, the rate of increase in operating expenses is expected to reduce, with operating expenses for 2007 rising to just over KWD1.7mn. Funding costs are forecast at KWD3.7mn while provisioning is forecast at KWD0.9mn. Net operating revenues are forecast at KWd4.5mn. After investment income of KWD0.6mn, net profit is forecast at KWD5.1mn.

2008-09 Although the Company has also provided forecasts for 2008 and 2009 (which form part of a fully documented five year business plan), visibility naturally declines the further out the period in question. This is even more so the case given the relatively short operating history of the Company. CI has therefore based this analysis on the earlier years of the forecast.

Interest Coverage The following ratios emerge from the forecasts.

2005	3.10 times
2006	2.48 times
2007	2.39 times

Interest coverage as forecast is comfortable but would be vulnerable to either higher than expected asset quality provisioning or lower than expected investment income. Higher than expected funding costs could also affect coverage.

CASH FLOW

The Al Manar business model is fairly uncomplicated. This in turn makes the cash flow dynamics equally simple. Essentially the Company plans to raise medium and long term loans funding on an Islamic basis in order to fund medium term instalment facilities to Kuwaiti consumers. Repayments by instalment debtors are monthly, providing what should be a predictable inflow of cash every month subject to small variations caused by delayed repayments and/or loans that are prepaid. Should inflows fall behind budget, management could fairly easily correct by either increasing borrowings for a short period or by slowing down the extension of new loans.

As the Company is at an early stage of its operations, the portfolio is growing rapidly. There is therefore expected to be a large KWD42.4mn net outflow into financing facilities this year. This will be funded by increases in creditors of KWD39.7mn, most of which will come in the form of external funding facilities. Outflows in future years will be rather lower as the continuing extensions of new credits will be better matched by customer repayments. The Company does not intend to maintain any significant cash balances.

Management has indicated that the target lending book will be 50% in the form of facilities which amortise on a monthly basis and 50% murabaha or sukuk facilities. The latter will have bullet repayments of principal and semi-annual payments of profits.

AL MANAR FINANCING AND LEASING COMPANY

24-Jun-2005
KW60

PERFORMANCE RATIOS		
	External Audit	AUD 12/2004
A . SIZE FACTORS		
1 . Total Assets (USD 000)		112,026
2 . Total Capital (USD 000)		102,559
B . ASSET QUALITY		
3 . Total Assets Growth Rate (Year on Year %)		
4 . IFF-Loss Reserve to Gross IFF (%)		
5 . Non-Performing IFF to Gross IFF (%)		
6 . IFF-Loss Reserve to Non-Performing IFF (%)		
7 . Unprovided Non-Performing IFF to Free Capital (%)		
8 . IFF-Loss Provision Charge on Gross IFF (%)		
9 . Reserve for Dimin. of Investments to Total Investments (%)		
10 . Related Party Loans to Total Capital (%)		13.07
11 . Total Contingents on Total Assets (%)		0.46
C . CAPITAL ADEQUACY		
12 . CI Risk Asset Ratio (%)		106.81
13 . Estimated BIS Risk Asset Ratio (%)		106.76
14 . Estimated BIS RAR on Tier One Capital (%)		106.76
15 . Actual Risk Asset Ratio to Local Standards (%)		
16 . Internal Capital Generation (%)		0.75
17 . Total Capital Growth Rate (Year on Year %)		
18 . Total Capital to Total Assets (%)		91.55
19 . Total Capital to Gross IFF (%)		
20 . Free Capital Funds (KWD 000)		30,005
21 . Estimated BIS RAR Shortfall (KWD 000)		0
22 . Risk Weighted Assets on Total Footings (%)		85.22
D . LIQUIDITY		
23 . Net IFF to Total Deposits (%)		-
24 . Net IFF to Total Customer Deposits (%)		
25 . Net IFF to Stable Funds (%)		0.00
26 . Customer Deposits to Total Deposits (%)		
27 . Liquid Asset Ratio (%)		18.37
28 . Quasi-Liquid Asset Ratio (%)		43.73
29 . FX Currency Assets to FX Currency Liabilities (%)		
30 . FX Currency IFF to FX Currency Deposits (%)		
31 . Interbank Assets to Interbank Liabilities (%)		
32 . Net Interbank Assets (KWD 000)		6,056
E . PROFITABILITY		
33 . Return on Average Assets (%)		0.69
34 . Return on Average Equity (%)		0.75
35 . Underlying Profits on Average Assets (%)		-2.38
36 . Underlying Profits on Average Equity (%)		-2.60
37 . Funding Cost (%)		
38 . Profit Sharing on Average Earning Assets (%)		4.99
39 . Profit Sharing Differential (%)		
40 . Non-Profit Sharing Income to Gross Income (%)		62.52
41 . Operating Expenses to Gross Income (%)		70.59
42 . Operating Profit Growth Rate (%)		
43 . Operating Profit on Average Assets (%)		1.71
44 . Risk Provisioning Charge to Operating Profit (%)		59.47
45 . Dividend Payout Ratio (%)		0.00
RATES		
Exchange Rate (Units per USD)		0.2947
Inflation Rate (%)		1.14
Imputed Interest Rate on Free Capital (%) (Three Month Treasury Bills)		4.50

NOTES:

BALANCE SHEET - ASSETS (KWD 000)

RISK WGHT	External Audit	12/2004 USD 000	AUD 12/2004	Growth (%) 12/2004				Breakdown (%) 12/2004			
	LIQUID ASSETS:										
0%	Cash & 7 Day	27	8					0.02			
0%	Central Bank										
10%	Treasury Bills										
20%	Government Securities										
20%	Other										
	TOTAL LIQUID ASSETS	27	8					0.02			
	DEPOSITS WITH BANKS:										
20%	Short - up to 1 yr	10,370	3,056					9.26			
20%	Dep. with Islamic Financial Inst.	10,180	3,000					9.09			
100%	Non - OECD Medium Term										
	TOTAL DEPOSITS WITH BANKS	20,550	6,056					18.34			
100%	MARKETABLE SECURITIES	28,415	8,374					25.36			
	ISLAMIC FINANCING FACILITIES										
20%	Government Guaranteed										
50%	First Mortgage IFF										
100%	Morabaha - Musharaka										
100%	Medium/Long Term										
100%	Other - related co's										
100%	Non-Performing IFF										
100%	IFF-Loss Reserve										
	NET ISL. FIN. FACILITIES	0	0					0.00			
100%	UNQUOTED INVESTMENTS	8,958	2,640					8.00			
100%	PROPERTIES										
100%	NON-FINANCIAL SUBS & AFFILS.	170	50					0.15			
100%	FIXED ASSETS	573	169					0.51			
100%	OTHER ASSETS	53,332	15,717					47.61			
	TOTAL ASSETS	112,026	33,014					100.00			
	CONTINGENT ACCOUNTS:										
100%	Fin. Gtees/SLCs/Acceptances	512	151					100.00			
50%	Bid & Performance Bonds										
20%	LCs/Bank & Govt Guarantees										
10%	Bonding for Banks & Govts										
5%	IR Swaps/Bank & Govt LCs										
	TOTAL CONTINGENT ACCOUNTS	512	151	-	-	-	-	100.00	-	-	-
	TOTAL FOOTINGS	112,538	33,165	-	-	-	-	-	-	-	-
	RISK WEIGHTED ASSETS	95,902	28,262	-	-	-	-	-	-	-	-

BALANCE SHEET - LIABILITIES (KWD 000)

	USD 000	12/2004	12/2004	12/2004
INTERBANK LIABILITIES:				
Current & 7 Day				
Short	0	0		0.00
Other - Government & Financial Institutions				
TOTAL INTERBANK LIABILITIES	0	0		0.00
CUSTOMER DEPOSITS:				
Demand	0	0		0.00
Savings	0	0		0.00
Time	0	0		0.00
Other	0	0		0.00
TOTAL CUSTOMER DEPOSITS	0	0		0.00
MURABAHA PAYABLES	0	0		0.00
TOTAL DEPOSITS + INTERBANK	0	0		0.00
OTHER LIABILITIES	9,467	2,790		8.45
MEDIUM/LONG TERM LIABILITIES	0	0		0.00
TIER TWO CAPITAL:				
Asset Revaluation Reserve	0	0		0.00
Hybrid Capital Instruments	0	0		0.00
Subordinated Term Debt	0	0		0.00
TOTAL TIER TWO CAPITAL	0	0		0.00
TIER ONE CAPITAL:				
Paid Up Capital	101,798	30,000		90.87
Minority Interests	0	0		0.00
Reserves	760	224		0.68
TOTAL TIER ONE CAPITAL	102,559	30,224		91.55
TOTAL CAPITAL	102,559	30,224		91.55
TOTAL LIABILITIES AND CAPITAL	112,026	33,014		100.00

PROFIT AND LOSS ACCOUNT (KWD 000)

	USD 000	12/2004	Growth (%) 12/2004	% of Average Total Assets 12/2004
Income from Islamic Financing	2,443	720		2.18
Depositor's Share of Income				
Net income from Islamic Financing	2,443	720		2.18
Fees and Commissions				
FX Trading Income				
Trading Profit	1,347	397		1.20
Other Investment Income	2,504	738		2.24
Other Income	224	66		0.20
Non Profit Sharing Income	4,075	1,201		3.64
GROSS INCOME	6,518	1,921		5.82
Administrative Expenses	4,425	1,304		3.95
Depreciation	176	52		0.16
Other Expenses				
OPERATING EXPENSES	4,601	1,356		4.11
OPERATING PROFIT	1,917	565		1.71
Provisions for Doubtful IFF	-1,140	-336		-1.02
Prov. for Dimin. of Investments	0	0		0.00
GROSS PROFIT (or -LOSS)	777	229		0.69
Extraordinary Items	0	0		0.00
Tax & Equivalent	-7	-2		-0.01
NET PROFIT (or -LOSS)	770	227		0.69
Transfers/Adjustments	-10	-3		-0.01
APPROPRIATION:				
Minority Interests	0	0		0.00
Bonus Shares Issued	0	0		0.00
Dividends	0	0		0.00
Movement in Reserves	760	224		0.68
TOTAL	760	224		0.68