CAPITAL intelligence

CORPORATE RATING

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

June 2006

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

KWDmn	12/05	12/04
Total Assets	63.3	33.0
Total Capital	32.4	30.2
Borrowings	28.6	-
Net Instalment Rec	48.2	15.5
Net Profit	2.1	0.2

CI RATIOS AT FYE:

%	12/05	12/04
NPL Ratio	2.80	0.63
Provision Coverage	104.31	337.00
Leverage	0.95	0.09
Total Capital/Total Assets	51.18	91.55
Expenses/Gross income	35.98	70.70

POSITIVE FACTORS

- Good early asset quality, although longer term trends cannot yet be ascertained
- Solid capital base
- Strong growth in the financing portfolio

NEGATIVE FACTORS

- Still relatively short operating history
- Fairly small balance sheet size
- Increased competition from bank lenders
- Low returns relative to the sector

PROFILE Al Manar Financing and Leasing Company K.S.C. (Closed) was established in November 2003. Al Manar is not listed on the KSE but management has indicated that the Company will list once it has met the listing requirements. The main shareholders are Global Investment House 22.18%, The Fifth Economic Advisory Co 19.57%, Wafra International Investment Co 14.95%, The Sixth Economic Advisory Co. 11.60%, Iskan Financing Co 9.97%. As at end 2005 there were 50 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. As of March 2006 management estimated market share at 7%.

RATING RATIONALE The main constraints on the rating of the Company remain 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 but would seem achievable based on the performance in 2005. As long as the necessary external funding is available (and there is no reason to currently doubt this), the future targets should be achievable given a buoyant domestic economy and what is still strong demand for consumer credit facilities although competitive pressures are beginning to bite. 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 fairly good asset quality at present, this is to be expected in a portfolio where a large proportion of 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 early operating period is encouraging although current returns still lag the sector. CI upgrades the long term corporate rating to BB. The short term rating remains at B. The outlook reverts to stable as any further upgrade will require the loan portfolio to become rather more mature.

NON-FINANCIAL FACTORS

BACKGROUND

Al Manar Financing & 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. The end 2005 staffing was 50, down from 67 at the end of 2004.

OWNERSHIP

The main shareholders are as follows:

	%
Global Investment House	22.18
The Fifth Economic Advisory Co	19.57
Wafra International Investment Co	14.95
The Sixth Economic Advisory Co	11.60
Iskan Financing Co	9.97

The small reduction in the stakes reflects the issue of one million shares available for employees.

In October 2006 the Company will be three years old, and therefore eligible for listing on the KSE as long as a series of other requirements are also met. These mainly centre on the earnings record over the two years preceding a listing application and the number of pre-IPO shareholders.

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 there were previously two Assistant General Managers who reported to the GM. In 2005 however the structure changed. There is now one Deputy General Manager, to whom report the Sales Department and the Marketing Department. The remaining functions (finance, legal, IT, HR, collections) report to the General Manager.

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 (now KFIC), 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.

The three person Legal Department comprises 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 Shari'a Board advisors.

SUPERVISION & REGULATION

Al Manar is supervised and regulated by the Central Bank of Kuwait and by the Ministry of Commerce. Once the Company becomes listed it will also be subject to the regulations and reporting requirements 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. The Company currently 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. The regulatory regime in Kuwait includes regular on-site inspections as well as on-going off-site supervision.

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 (KWD15K or 15 times salary, whichever is lower).

In February 2006 the central bank for the first time approved consumer loans which include a balloon payment.

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

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 remain 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 be well in excess of KWD3 billion. However this total would include all forms of credit to consumers, including residential mortgages (which are relatively few in number) and credit card balances. The narrower markets in which Al Manar's consumer lending business operates are chiefly for the financing of consumer durables (largely passenger vehicles) and cash credit facilities although the business plan does make provision for some real estate related financing.

There are a number of providers 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 BBK branch and possibly, in time, the other foreign banks), Kuwait Finance House and the Islamic Finance Companies. Precise data is difficult to obtain (the commercial banks do not normally separate out 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 were as follows:

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

A similar survey using 2005 data is under preparation. In the meantime (and using receivables portfolios as a proxy for auto loans) market shares of the non-bank providers were as follows (aggregate portfolio KWD835.8mn):

	%
CFC	41.3
The Investment Dar	19.4
KFIC	11.0
A'Ayan Leasing & Investment	10.6
International Finance Company	7.3
Al Manar Financing & Leasing	5.7
Osoul Leasing & Finance Company	4.7

It should however be borne in mind that at some lenders (such as CFC and KFH) the overwhelming bulk of the portfolio has historically made up of facilities for the purchase of autos (although this may be changing). At others (such as KFIC and The Investment Dar), there is a rather larger proportion of lending for other purposes such as secured lending to asset management customers or real estate lending (and thus perhaps a somewhat higher market share overall). Nonetheless the above data for 2004 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 in some cases at least have a larger share of new lending than the above percentages might imply.

In 2005 there was some divergence in growth trends, particularly among the institutions operating on an Islamic basis. Both Investment Dar and Osoul saw a fall in their consumer lending portfolios while A'Ayan and in particular Al Manar saw rises. In Q1 2006 Al Manar saw its portfolio rise by 16.9%, bringing its estimated market share to 7%.

What is certainly the case is that the commercial banks have become much more aggressive in consumer lending; in the past this had been a less important market for them. Regulatory changes and the introduction of Ci-Net has limited the amount of available business due to limits on individual indebtedness, and the banks have crucial advantages in that they control the salary accounts of potential borrowers as well as having lower funding costs. Set against this, the non-bank finance companies have low cost-income ratios as well as the possibility of offering operational lease-based products, something that the banks cannot do.

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 Shari'a compliant basis, in particular KFH, the Investment Dar and A'Ayan Leasing & Investment. The recently established Bubiyan Islamic Bank will also be a competitor. Despite this, Al Manar was able to grow its portfolio strongly in 2005.

As at end 2005 Al Manar had a customer base of 6,811, up from 1,603 at end 2004. By the end of Q1 2006 this had risen to 2,805. As at end-March 2006 the total had increased further to 8,452. Market share at end-March 2006 is estimated by management to have been 7%.

BUSINESS PLAN

The business plan continues to be based on three main market segments. These are as follows:

Consumer financing
Real Estate financing
Fleet financing

Consumer lending is in turn further subdivided into:

Financing for the purchase of new vehicles
Financing for the purchase of used vehicles
Cash financing on an Islamic basis (Tasaheel)

More recently the Company has also added financing for educational purposes (KWD0.1mn). There is in addition a small marine equipment book (KWD0.4mn).

Consumer Financing

- **Vehicle purchase** Facilities for the purchase of new vehicles and facilities for the purchase of used vehicles are similar in structure. The main differences are that the tenors of used car facilities will typically be shorter while the cost to the customer will be marginally higher. Average facility amounts will normally be lower reflecting the lower cost of a used vehicle. All vehicles are effectively mortgaged in favour of Al Manar by means of registration of the charge at the traffic department. Maximum tenor is 60 months. As at end 2005 the new vehicles book totalled KWD17.1mn while that for used vehicles totalled KWD10.8mn.
- **Cash facilities** 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. As at end 2005 the portfolio totalled KWD16.4mn.

Real Estate Financing

Real Estate facilities are (unlike vehicle purchase or cash loans) intended for Kuwaitis only, either individuals or local companies. All real estate financing will require a first mortgage on the property or be structured as an Ijara contract. 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 financing 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. As at end 2005 the real estate portfolio totalled KWD1.9mn.

Client composition As at end 2005 Kuwaiti borrowers made up 71.3% of outstandings by value. The only other nationalities with significant shares were Egyptians, Syrians, Jordanians, Eritreans and Indians.

Funding A year ago Al Manar had only one external funding line in place. Of this line of KWD4mn, KWD1.8mn was utilised. Now the Company has long-term lines from two Kuwaiti institutions as well as a number of shorter term lines. As at end 2005, short term outstandings were KWD7.1mn and longer term outstandings KWD25.1mn. The Company currently has KWD8.0mn in unutilised lines.

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. An on-line payment facility is being developed to make payments easier for clients.

PROSPECTS

Although Al Manar is still a small player in a market that contains some heavyweight competition, customer demand has until now been strong. This in turn has meant that consumer lenders had not in the past had to compete too strongly in terms of pricing. The increased competition from the banks has however now had an impact, and one that has been quite severe is some cases. Al Manar has nonetheless managed to post impressive portfolio growth figures, albeit fro what was a modest base. The challenge will be in maintaining this momentum. It is however important that asset quality be maintained even in the face of margin pressures.

It should be remembered that Al Manar is effectively only a little over two years old. While it is therefore rather smaller than its longer established competitors at present, it compares favourably with these same organisations at a similar stage in their development. As long as portfolio growth can continue without any underlying deterioration in asset quality, prospects remain favourable.

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 have been limited although recent discoveries may have changed this picture. This was a potential problem, as gas is needed for the growing petrochemical industry and for electricity generation. There were plans to import gas from Iran and from Qatar but the latter project has been stalled by the refusal of the Saudi authorities to allow the necessary pipeline to pass through their territorial waters. In December 2004, Kuwait and Iraq agreed a 200mn cubic feet per day contract. This will come in two phases. The first 35mn cubic feet per day began arriving in October 2005 with the remainder coming on stream in 2007. Increased supplies of gas should 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 5m* bpd 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 show a GDP of KWD16.4 billion, a growth of 19.3%. Oil and Gas made up 47.6%. Estimates for 2005 are of another 19%-plus increase.

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 USD51 per barrel at present) is still somewhat lower than the headline numbers for WTI or Brent, the percentage increase has been at least similar and there are indications that the differentials have been narrowing. The trade surplus in 2004 was KWD4.7 billion and for 2005 KWD8.4 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 KWD724mn figure for 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 2006 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 at some point if OPEC is to maintain its firm control on pricing, although there is little sign of any need for this at present. 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, albeit at what are still low levels. Imports are expected to again grow however as the heavy spending phase of a number of large projects has now arrived. Despite this, a trade surplus in the region of at least 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 KWD2.8 billion or 36% of GDP. In 2004 the surplus again almost doubled to KWD5.1 billion. The outlook for 2006 is another large surplus.

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 last 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 was that 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. Preliminary data for the budgetary year actually show oil income as having been KWD8.2 billion and total income KWD9.0 billion. Expenditure was only KWD6.3 billion, leaving a surplus of KWD2.6 billion. Current estimates for the surplus for the year to March 2006 are in the region of KWD7 billion – the actual surplus for the first ten months was KWD6.2 billion. The draft budget for the current 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 almost certain 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 KWD7.2 billion leaving a deficit of KWD2.6 billion.

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

OUTLOOK

Following the conclusion of the Iraq war, and despite the ongoing lack of security in that country, Kuwait continues to be in an enviable position. Contrary to earlier fears, the war was not followed by a softening of oil prices. On the contrary, supply constraints and high and rapidly growing demand from Asia in particular has led to a prolonged 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, particularly as the discount on Kuwait export crude (KEC) has been reducing. Although the flow of UN compensation monies has been greatly reduced, Kuwaiti businesses continue to be 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; this sector in particular is having a very good war.

Despite the current favourable conditions, some negatives remain. The country continues to depend heavily on crude oil for its income 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 currently employed by the public sector, there is clearly very limited capacity to absorb these new entrants to the jobs market, at least in government. 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 include the stock exchange and consumer finance, although the central bank has reinforced controls on the latter. After a poor period from 1998 to 2000, equity prices subsequently rose strongly over the next five years. 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 through most of 2005, reached an all-time high in early December. Since then, a major correction has taken place. As at 28 June the KSE had fallen by 12.61% since the beginning of January to 10,001.9.

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 further, or even stagnate at current levels there could be problems. Although P/E multiples in Kuwait 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 further downward pressure on share prices; this indeed seems to have been the effect of poor Q1 2006 results from some companies.

FINANCIAL ANALYSIS

ASSET COMPOSITION

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

Cash and cash equivalents The KWD1.2mn is net of a small overdraft amount. KWD1.0mn was placed with banks and financing institutions while another KWD0.2mn represented the cash element of the trading portfolio.

Investments in Murabaha and Wakala These were essentially placements of surplus liquidity with other local institutions using Islamic structures. These investments totalled KWD3.0mn at end 2005 and were in the form of a Murabaha contract with a Kuwaiti Islamic bank.

Investments held for trading These totalled KWD10.5mn at end 2005 (2004: KWD10.9mn) included a series of investments in Islamic funds, in an equity fund, in a Takaful company and a series of direct holdings. The largest single investment was KWD2.0mn in a managed Islamic fund. CI has been provided with details of the holdings.

Instalment credit receivables These are shown as Trade Receivables on the balance sheet. As the Company is still at a fairly early stage of its operations, the book was still fairly small at KWD49.7mn (gross – KWD48.2net) compared to KWD15.9mn (gross – KWD15.4mn net) at end 2004. At this stage Al Manar still lends mainly to Kuwaitis although other nationalities are becoming a more important source of business.

Asset quality As the operating history is so short, the portfolio is (a) still fairly small and (b) somewhat recent in credit extension. Longer term asset quality trends have therefore still to make themselves fully apparent. As at end 2004 specific provisions totalled only KWD20K. This in turn implied 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.

By end 2005 sufficient time had passed for asset quality problems to appear, and as expected the volume of non-performing facilities had increased to KWD1.4mn, equivalent to 2.80% of the gross portfolio. This was however a lower figure than in September and October; past dues on consumer finance facilities tend to peak immediately after the summer vacation period in Kuwait. In terms of classification category, KWD0.9mn was substandard and KWD0.2mn doubtful with KWD0.3mn classified as bad. Both the bad and doubtful categories had decreased in amount from the September/October peaks (as had substandard loans). Provisions totalled KWD1.5mn, of which KWD0.5mn were specific.

Investment in unconsolidated subsidiary The KWD50K investment at end 2004 represented Al Manar's 99% holding in United Tasahil Real Estate Company. This Company is 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. In the 2005 accounts, this subsidiary (having become active) was consolidated.

The unconsolidated subsidiaries in the 2005 accounts are in Al Manar National Administrative Consultation Co and in Al Manar Express Marketing Consultation Co. As at end 2005, neither had started operations.

LIABILITIES COMPOSITION

Funding 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. The situation changed in 2005. As the asset base grew, the Company began to access external Islamic funding in the form of Murabaha and Wakala payables. The providers of long term lines are a Kuwaiti Islamic bank and a Kuwaiti investment house. The providers of short term lines are the Public Institution for Social Security and another Kuwaiti Islamic bank. External financing totalled KWD28.6mn, of which in excess of KWD20mn were in the form of medium term facilities. All external financing is fixed rate. Unutilised credit lines are currently KWD8.0mn.

Creditors and other credit balances Apart from capital and the external funding facilities, this was the only entry on the liability side of the balance sheet at end 2004 of any size at KWD2.2mn (2004: KWD2.8mn). Of the total, trade payables represented KWD2.0mn (2004: KWD2.7mn). These trade payables 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.

Capital There was a small increase in paid in capital in 2005 due to issue of new shares under the Employee Share Ownership Plan. However paid in capital remained slightly under KWD30.1mn. Together with reserves and retained earnings, this increase shareholders' funds by 7.2% to KWD32.4mn. There are no plans for additional capital, even if the Company goes for an IPO towards the end of the year or early in 2007 and at this stage the balance sheet remains under-leveraged.

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. As expected, the growth in the financing portfolio had reduced this to a more normal 2.04.

Leverage *As at end 2004 leverage was 0.09. As with liquidity, this was an early and therefore in the longer run atypical ratio as it reflected the lack of external funding and a still high ratio of capital to total assets. As at end 2005 the ratio had risen to 0.95, and it is expected to rise further during 2006 to 2.00. The Company has an in-house limit for leverage of 2.5; at the end of Q1 2006 the level* was 1.*30.*

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. This was however of course very early days and although the Company did well to become profitable so quickly, the KWD2.1mn net profit made in 2005 is a better indicator of probable future profitability.

Total revenues increased from KWD1.9mn to KWD5.8mn with financing revenues rising from KWD0.7mn to KWD4.0mn. Investment gains were KWD1.1mn, up from KWD0.4mn in 2004. Other revenues were KWD0.7mn and were made up largely of fees on financing facilities of almost KWD0.5mn. Operating expenses also rose, increasing from KWD1.4mn to KWD1.8mn. Finance costs were KWD1.1mn as against KWD0.3mn in 2004.

Q1 2006 Net profit for the quarter was KWD275K. This compared to KWD345K for the corresponding period of 2005. There were two main factors. The first was the absence of income from investments at fair value through the income statement; in Q1 these produced a loss of just under KWD0.1mn compared to a KWD0.3mn profit in Q1 2005. The other was a KWD0.1mn charge taken in Q1 which was related to an accounting error in Q4 2005 and which accordingly led to the net profit for the quarter being overstated by the same amount. Growth in underlying income was not affected with financing revenues rising to KWD1.4mn from KWD0.5mn a year earlier. Cost control continued to be good, with both personnel and general and administrative costs being held flat to the same quarter of 2005. Finance costs were KWD0.6mn compared to nil a year earlier. Provisions taken were KWD0.3mn.

Total Assets rose from KWD63.3mn to KWD75.2mn with finance receivables rising from KWD48.2mn to KWD56.3mn despite an increasingly competitive environment. Investments at fair value through the income statement were KWD1.0mn (end 2005: KWD10.5mn). Other receivables rose from KWD0.1mn to KWD0.7mn. Much of the increase related to monies due for monies advanced for investments being purchased (KWD0.5mn). External funding in the form of Murabaha and Wakala payables increased by KWD10.6mn to KWD39.2mn. Shareholders funds were KWD30.1mn, unchanged on end 2005. In terms of asset quality, non-performing finance receivables totalled KWD2.1mn against which the Company held total provisions of KWD1.7mn, of which KWD0.7mn were specific, giving a provision coverage ratio of 82.3%. Although increases in NPLs are always potentially a cause of concern, the NPL ratio at Al Manar remains well below the sector average.

Outlook for the remainder of 2006 Management are cautiously optimistic for performance for the remainder of the year. Even with the special factors that impacted Q1, net profit after five months of KWD0.7mn was slightly ahead of the result for the corresponding period of 2005. Despite increased competition, Al Manar is still managing to grow its financing book and it is probable that the net profit for 2006 will exceed the KWD2.1mn earned in 2005 – although possibly not by much. The forecast net of KWD3.0mn for this year may now be a bit of a stretch. In terms of asset quality, NPLs are also likely to grow along with the financing book; the additional provisioning that this would require could also restrain profit growth.

FINANCIAL FORECASTS

The following forecasts for the period to 2009 are based on 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 200 bp. 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.

BALANCE SHEET

2006 The Company expects to see a further major increase in the asset base this year with total assets rising by 67.7% from KWD63.3mn to KWD106.2mn. As might be expected from the business model, nearly all of the increase will come in finance receivables which rise from KWD48.2mn to KWD89.2mn. The latter increase is a little smaller than at the time of the previous forecasts, when it had been expected that the financing portfolio would have risen to KWD91.4mn by end 2006. Competition in the sector has been increasing, in particular from the commercial banks. The remaining assets are largely in the form of investments held for trading (KWD11.3mn), investments in Murabaha and Wakala (KWD3.0mn) and cash (KWD2.4mn).

The rapid further increase in finance receivables will require a similar increase in external financing. While Murabaha and Wakala payables are expected to remain at KWD28.6mn for the remainder of the forecast period, Islamic financing for Kuwaiti banks is expected to increase to KWD42.0mn. Shareholders funds are forecast at KWD35.4mn. Leverage is forecast at 2.00.

2007 Again a similar pattern but with a slowing of loan growth. Total assets are seen as rising to KWD128.6mn and instalment receivables rising to KWD111.2mn. These would be financed by shareholders funds of KWD40.0mn, Murabaha and Wakala payables of KWD28.6mn and external funding of KWD59.7mn. Leverage is forecast at 2.21.

By the end of 2008, the Company hopes to have grown the instalment receivables book to KWD131.7mn and total assets to KWD148.9mn. Shareholders funds by then should have risen to KWD44.9mn and leverage to 2.32.

At this time it is still 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, additional funding arrangements are still under negotiations, and amounts and tenors are therefore not yet set. However in principle the policy is to match fund to the extent possible which should maintain liquidity at a prudent level.

PROFIT AND LOSS ACCOUNT

As might be expected finance revenues dominate the revenue base. This domination is set to increase as the financing portfolio is increased. In 2005 financing revenues made up 68.9% of total revenues. By end 2008 this should have risen to 79.9%. The other sources of revenues are from the investment portfolio, from the murabaha and wakala assets held and from Other Revenues. The latter include various fees and commissions related to financing. These other forms of revenue in aggregate bring in less than KWD2.5mn in 2006 and even by 2008 are likely to total only a little over KWD2.6mn.

Forecast total revenue figures are as follows:

2006	KWD8.8mn
2007	KWD11.5mn
2008	KWD13.0mn

General and administrative expenses and personnel expenses will continue to increase but the Company has a fairly lean cost base and neither line item will exceed KWD0.9mn. The main cost is naturally of finance. This will rise in line with the volume of external funding as follows:

2006	KWD3.0mn
2007	KWD4.1mn
2008	KWD5.3mn

The other significant cost will be provisioning both specific and general. The Company expects provisioning to be around KWD1.0mn for each year except for KWD1.1mn in 2006. This leaves forecast net profit as follows:

2006	KWD3.0mn
2007	KWD4.6mn
2008	KWD4.8mn

To achieve the 2006 forecast will require a much stronger second half of the year.

Interest Coverage The following ratios emerge from the forecasts.

2006	2.04 times
2007	2.16 times
2008	1.95 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 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 net outflow into financing facilities this year. This will be funded by increases in creditors, 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.

AL MANAR FINANCING AND LEASING COMPANY

10-Oct-2006
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PERFORMANCE RATIOS	External Audit	AUD 12/2005	AUD 12/2004
A . SIZE FACTORS			
1 . Total Assets (USD 000)		216,767	112,026
2 . Total Capital (USD 000)		110,932	102,559
B . ASSET QUALITY			
3 . Total Assets Growth Rate (Year on Year %)		91.72	
4 . Loan-Loss Reserve to Gross Loans (%)		2.92	2.12
5 . Non-Performing Loans to Gross Loans (%)		2.80	0.63
6 . Loan-Loss Reserve to Non-Performing Loans (%)		104.31	337.00
7 . Unprovided Non-Performing Loans to Free Capital (%)			
8 . Loan-Loss Provision Charge on Gross Loans (%)			
9 . Reserve for Dimin. of Investments to Total Investments (%)			
10 . Related Party Loans to Total Capital (%)		0.59	0.16
11 . Total Contingents on Total Assets (%)			0.46
C . CAPITAL ADEQUACY			
12 . CI Risk Asset Ratio (%)		53.93	107.45
13 . Estimated BIS Risk Asset Ratio (%)		54.06	107.41
14 . Estimated BIS RAR on Tier One Capital (%)		54.06	107.41
15 . Actual Risk Asset Ratio to Local Standards (%)			
16 . Internal Capital Generation (%)		6.44	0.74
17 . Total Capital Growth Rate (Year on Year %)		7.17	
18 . Total Capital to Total Assets (%)		51.18	91.55
19 . Total Capital to Gross Loans (%)			
20 . Free Capital Funds (AED 000)		32,202	30,055
21 . Estimated BIS RAR Shortfall (AED 000)		0	0
22 . Risk Weighted Assets on Total Footings (%)		94.62	84.85
D . LIQUIDITY			
23 . Net Loans to Total Deposits (%)		168.42	-
24 . Net Loans to Total Customer Deposits (%)			
25 . Net Loans to Stable Funds (%)		79.25	51.71
26 . Customer Deposits to Total Deposits (%)			
27 . Liquid Asset Ratio (%)		6.70	18.92
28 . Quasi-Liquid Asset Ratio (%)		6.70	18.92
29 . FX Currency Assets to FX Currency Liabilities (%)			
30 . FX Currency Loans to FX Currency Deposits (%)			
31 . Interbank Assets to Interbank Liabilities (%)			
32 . Net Interbank Assets (AED 000)		4,238	6,106
E . PROFITABILITY			
33 . Return on Average Assets (%)		4.33	0.68
34 . Return on Average Equity (%)		6.66	0.74
35 . Underlying Profits on Average Assets (%)		2.81	-2.39
36 . Underlying Profits on Average Equity (%)		4.32	-2.62
37 . Funding Cost (%)		5.56	
38 . Interest on Average Earning Assets (%)		10.82	3.30
39 . Interest Differential (%)		5.26	
40 . Non-Interest Income to Gross Income (%)		35.96	62.46
41 . Operating Expenses to Gross Income (%)		35.98	70.70
42 . Operating Profit Growth Rate (%)		472.95	
43 . Operating Profit on Average Assets (%)		6.69	1.70
44 . Risk Provisioning Charge to Operating Profit (%)		34.63	59.79
45 . Dividend Payout Ratio (%)		0.00	0.00
RATES			
Exchange Rate (Units per USD)		0.2920	0.2947
Inflation Rate (%)		4.10	1.14
Imputed Interest Rate on Free Capital (%) (Three Month Treasury Bills)		6.00	4.50

NOTES:

BALANCE SHEET - ASSETS (KWD 000)

RISK WGHT	External Audit	12/2005 USD 000	AUD 12/2005	AUD 12/2004	Growth (%) 12/2005	12/2004			Breakdown (%) 12/2005	12/2004		
	LIQUID ASSETS:											
0%	Cash & 7 Day	0	0	141	-100.00				0.00	0.43		
0%	Central Bank											
10%	Treasury Bills											
20%	Government Securities											
20%	Other											
	TOTAL LIQUID ASSETS	0	0	141	-100.00				0.00	0.43		
	DEPOSITS WITH BANKS:											
20%	Short - up to 1 yr	4,223	1,233	3,106	-60.30				1.95	9.41		
20%	Dep. with Islamic Financial Inst.	10,291	3,005	3,000	0.17				4.75	9.09		
100%	Non - OECD Medium Term											
	TOTAL DEPOSITS WITH BANKS	14,514	4,238	6,106	-30.59				6.70	18.50		
100%	MARKETABLE SECURITIES											
	LOANS AND ADVANCES:											
20%	Government Guaranteed											
50%	First Mortgage Loans											
100%	Bills Disc. & Short Term	165,277	48,261	15,778	205.88				76.25	47.79		
100%	Medium/Long Term											
100%	Other											
100%	Non-Performing Loans	4,767	1,392	100	1,292.00				2.20	0.30		
100%	Loan-Loss Reserve	-4,973	-1,452	-337	330.86				-2.29	-1.02		
	NET LOANS AND ADVANCES	165,072	48,201	15,541	210.15				76.15	47.07		
100%	UNQUOTED INVESTMENTS	36,017	10,517	10,881	-3.35				16.62	32.96		
100%	PROPERTIES											
100%	NON-FINANCIAL SUBS & AFFILS.	51	15	0	-				0.02	0.00		
100%	FIXED ASSETS	599	175	169	3.55				0.28	0.51		
100%	OTHER ASSETS	514	150	176	-14.77				0.24	0.53		
	TOTAL ASSETS	216,767	63,296	33,014	91.72				100.00	100.00		
	CONTINGENT ACCOUNTS:											
100%	Fin. Gtees/SLCs/Acceptances	0	0	151	-100.00				-	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	0	0	151	-100.00	-	-	-	-	100.00	-	-
	TOTAL FOOTINGS	216,767	63,296	33,165	90.85	-	-	-	-	-	-	-
	RISK WEIGHTED ASSETS	205,105	59,891	28,139	112.84	-	-	-	-	-	-	-

BALANCE SHEET - LIABILITIES (KWD 000)

	USD 000	12/2005	12/2004	12/2005	12/2004	12/2005	12/2004
INTERBANK LIABILITIES:							
Current & 7 Day							
Short	0	0	0	-		0.00	0.00
Other - Government & Financial Institutions							
TOTAL INTERBANK LIABILITIES	0	0	0	-		0.00	0.00
CUSTOMER DEPOSITS:							
Demand	0	0	0	-		0.00	0.00
Savings	0	0	0	-		0.00	0.00
Time	0	0	0	-		0.00	0.00
Other	0	0	0	-		0.00	0.00
TOTAL CUSTOMER DEPOSITS	0	0	0	-		0.00	0.00
MURABAHA PAYABLES	98,010	28,619	0	-		45.21	0.00
TOTAL DEPOSITS + INTERBANK	98,010	28,619	0	-		45.21	0.00
OTHER LIABILITIES	7,825	2,285	2,790	-18.10		3.61	8.45
MEDIUM/LONG TERM LIABILITIES	0	0	0	-		0.00	0.00
TIER TWO CAPITAL:							
Asset Revaluation Reserve	0	0	0	-		0.00	0.00
Hybrid Capital Instruments	0	0	0	-		0.00	0.00
Subordinated Term Debt	0	0	0	-		0.00	0.00
TOTAL TIER TWO CAPITAL	0	0	0	-		0.00	0.00
TIER ONE CAPITAL:							
Paid Up Capital	103,024	30,083	30,000	0.28		47.53	90.87
Minority Interests	0	0	0	-		0.00	0.00
Reserves	7,908	2,309	224	930.80		3.65	0.68
TOTAL TIER ONE CAPITAL	110,932	32,392	30,224	7.17		51.18	91.55
TOTAL CAPITAL	110,932	32,392	30,224	7.17		51.18	91.55
TOTAL LIABILITIES AND CAPITAL	216,767	63,296	33,014	91.72		100.00	100.00

PROFIT AND LOSS ACCOUNT (KWD 000)

	USD 000	12/2005	12/2004	Growth (%) 12/2005	12/2004	% of Average Total Assets 12/2005	12/2004
Interest Income	13,757	4,017	720	457.92		8.34	2.18
Interest Expense	-2,726	-796	0	-		-1.65	0.00
Net Interest	11,031	3,221	720	347.36		6.69	2.18
Fees and Commissions							
FX Trading Income							
Dealing Securities Income	3,671	1,072	397	170.03		2.23	1.20
Other Investment Income	154	45	738	-93.90		0.09	2.24
Other Income	2,370	692	63	998.41		1.44	0.19
Non Interest Income	6,195	1,809	1,198	51.00		3.76	3.63
GROSS INCOME	17,226	5,030	1,918	162.25		10.45	5.81
Administrative Expenses	5,801	1,694	1,304	29.91		3.52	3.95
Depreciation	329	96	52	84.62		0.20	0.16
Other Expenses	68	20	0	-		0.04	0.00
OPERATING EXPENSES	6,199	1,810	1,356	33.48		3.76	4.11
OPERATING PROFIT	11,027	3,220	562	472.95		6.69	1.70
Provisions for Doubtful Debts	-3,818	-1,115	-336	231.85		-2.32	-1.02
Prov. for Dimin. of Investments			0				0.00
GROSS PROFIT (or -LOSS)	7,209	2,105	226	831.42		4.37	0.68
Recoveries	0	0	0	-		0.00	0.00
Tax & Equivalent	-68	-20	-2	900.00		-0.04	-0.01
NET PROFIT (or -LOSS)	7,140	2,085	224	830.80		4.33	0.68
Transfers/Adjustments	0	0	0	-		0.00	0.00
APPROPRIATION:							
Minority Interests	0	0	0	-		0.00	0.00
Bonus Shares Issued	0	0	0	-		0.00	0.00
Dividends	0	0	0	-		0.00	0.00
Movement in Reserves	7,140	2,085	224	830.80		4.33	0.68
TOTAL	7,140	2,085	224	830.80		4.33	0.68

RATINGS DEFINITIONS

Foreign & Local Currency Ratings For Corporates

Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

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

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

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

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

Long-Term Issuer Ratings

Investment Grade

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

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

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

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

Speculative Grade

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

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

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

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

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

Short-Term Issuer Ratings

Investment Grade

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

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

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

Speculative Grade

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

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

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

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

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

Outlook – expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.