CAPITAL intelligence

# CORPORATE RATING

# Al Manar Financing & Leasing Company KSC (Closed)

## December 2011

Capital Intelligence, Oasis Complex, Block E, Gladstone Street, P.O. Box 53585, CY 3303 Limassol, Cyprus,
Telephone: 357 25 342300, Facsimile: 357 25 817750 E-mail: capital@ciratings.com. Web site: http://www.ciratings.com

**Corporate Rating Report**

# Al Manar Financing & Leasing Company KSC (Closed)

## Kuwait

**December 2011**

**Capital Intelligence**
Oasis Complex, Block E, Gladstone Street
PO Box 53585
CY 3303 Limassol
Cyprus

Telephone: +357 2534 2300
Facsimile: +357 2581 7750

E-mail: capital@ciratings.com
Web site: http://www.ciratings.com

**CONTACT**

**Primary Analyst**
Rory Keelan
Senior Credit Analyst
Tel: 357 2534 300
E-mail: rory.keelan@ciratings.com

**Secondary Analyst**
Agnes Seah
Credit Analyst
E-mail: agnes.seah@ciratings.com

**Rating Committee Chairman**
Morris Helal
E-mail: morris.helal@ciratings.com

The information sources used to prepare the credit ratings are the rated entity and public information**.** Capital Intelligence considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. Capital Intelligence does not audit or independently verify information received during the rating process.

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. Ratings on the issuer were first released in June 2005. The ratings were last updated in October 2010

The principal methodology used in determining the ratings is Corporate Rating Methodology. The methodology and the meaning of each rating category and definition of default can be found at www.ciratings.com

Ref: KW06010COP00-1/12-11

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

**Kuwait, December 2011**

## RATINGS

| | Current | Last Changed From | Date |
|---|---|---|---|
| **Sovereign** | | | |
| Long-Term: | **AA-** | A+ | Apr 07 |
| Short-Term: | **A1+** | A1 | Apr 07 |
| Outlook | **Stable** | - | - |
| **Corporate Rating** | | | |
| **Long-term** | **B+** | BB+ | Jul 09 |
| **Short-term** | **B** | - | - |
| **Outlook** | **Stable** | Negative | Oct 10 |

## FINANCIAL HIGHLIGHTS

| USD (mn) / KWD (mn) | H1 2011 USD | H1 2011 KWD | 2010 KWD | 2009 KWD |
|---|---|---|---|---|
| Net Financing Income | 5.7 | 1.6 | 3.8 | 3.8 |
| Non-Financing Income | 0.4 | -0.1 | -0.1 | -1.9 |
| Operating Expenses | 2.9 | 0.8 | 1.8 | 2.1 |
| Net Profit / Loss | 2.2 | 0.6 | 0.9 | -4.3 |
| Total Assets | 186.2 | 52.0 | 58.5 | 81.1 |
| Net Financing Rec. | 123.3 | 34.4 | 43.0 | 63.4 |
| Total Debt | 54.8 | 15.3 | 22.4 | 45.6 |
| Total Equity | 124.6 | 34.8 | 34.2 | 33.3 |
| *Exchange Rate: USD/KWD* | | *0.279* | *0.288* | *0.287* |
| NPFR / Financing Receivables | | 46.36 | 46.24 | 35.22 |
| FR-Loss Reserve / NPFR | | 46.33 | 38.74 | 32.85 |
| Total Equity / Total Assets | | 66.92 | 58.39 | 41.11 |
| Leverage | | 0.49 | 0.71 | 1.43 |
| ROAA (%) *Annualised* | | 2.23 | 1.22 | -4.28 |
| ROAE (%) *Annualised* | | 3.57 | 2.53 | -12.05 |

## RATINGS DRIVERS

### Supporting the Rating

- Profitability is recovering
- Sufficient committed funding in place to cover planned lending volumes through at least H1 2012
- Demonstrated funding support by main shareholder

### Constraining the Rating

- Poor asset quality and low LLR coverage, although NPFRs have begun to decline in money terms
- Financing receivables portfolio continued to decline in H1 2011, although net growth has now resumed
- Very small balance sheet and modest market share in the Kuwait consumer financing sector
- Very limited diversity of funding sources
- Narrow range of earning streams – nearly all income is finance portfolio dependent

## RATING RATIONALE

Like other non-bank financing companies, Al Manar's operations and financial position suffered badly due to the domestic and regional financial crisis. As well as experiencing a dramatic worsening of asset quality, the Company was also hit by a severe liquidity squeeze which forced the effective suspension of new lending – which then impacted earnings. This, together with higher provisioning requirements and substantial investment losses, pushed the Company into loss in 2009.

The situation began to improve in 2010. Asset quality stabilised while the cost base was reduced. Although the lack of new lending saw the performing portfolio continue to decline, the Company was able to post a small profit. In H1 2011, asset quality began to show a marked improvement as recoveries of NPFRs were made, while a new anchor funding line allowed a full resumption of new lending. This resumed loan growth should in turn improve asset quality ratios while the associated increase in general provisions on the new lending will modestly improve what remains a low LLR coverage. Higher volumes will also mean higher revenues and higher profits and improved profitability – but only if the improving trend in asset quality can be maintained.

CI maintains the ratings at the current level of Long-term 'B+' and Short-term 'B'. The ratings are supported by the recovery in new lending, by the improving trend in asset quality and by the more stable funding position. Ratings, however, remain constrained by the still weak asset quality, the low earnings (and earnings capacity), the narrow revenue base and by the small absolute size of the balance sheet. The Outlook is 'Stable'. To achieve an improvement in the rating would require the Company to be able to demonstrate sustained portfolio growth and a more diversified funding base, while at the same time maintaining an improving asset quality trend and improved earnings.

## PERFORMANCE OUTLOOK

**Funding assured for H1 2012.** Having come through a very stressed period, Al Manar appears to be well placed for the slow rebuilding of lending volumes as sufficient committed lines are in place to fund the planned portfolio growth for at least H1 2012 (with a further line from a new lender already under negotiation). However, to achieve the full targets shown below, additional funding lines will be needed in 2013-14.

**But will the demand be there?** Although there are positive signs, loan demand has been relatively weak in the consumer sector over the last two years. Achieving the forecast new lending volumes will require sufficient demand for credit.

**Asset quality remains a concern.** Although the Company has begun to be able to manage down NPFRs in money terms, the rapid run-off of older (performing) outstandings has left the NPFR ratio at a high level. As new lending volumes hopefully grow, this ratio should fall – as long as new past dues are kept to a low level. Similarly, loan loss reserve coverage would also improve a little as performing facilities are supported by a 1% general LLR. However, CI does not expect the coverage ratio to rise by very much from the current level and asset quality will therefore remain a constraining factor unless and until the legacy NPFRs are either recovered or written off.

**Forecast H2 2011.** The forecast to end 2011 is based on actual figures as at end-October 2011 and should therefore be fairly accurate.

- **P/L.** Forecast year end net profit is KWD1.1mn. Actual net profit as at end-October 2011 was KWD1.0mn.
- **Receivables Portfolio.** Growth has resumed with new lending in the period July-October totalling KWD8.1mn. Net growth was, however, low as repayments and recoveries were almost just as high. For November and December, new lending of KWD4.6mn is expected with repayments of only KWD3.4mn, leaving the forecast year end net financing receivables at KWD37.7mn. While this would represent an increase on the mid year position, it would still be lower than the KWD43.0mn at end 2010.

**Forecast 2012-14.** The Company prepared updated forecasts in November 2011 as part of an updated business plan. CI was provided with a copy. The forecast is based on a number of assumptions relating to lending volumes, funding availability and the expense base. These also envisage there being no additions to or disposals from investments in funds or equities. The forecasts do not assume the achievement of a sale of the stake in Qatar Finance House.

- **P/L** The forecast net profit figures for 2012-14 are as follows: -

  - 2012 KWD1.02mn
  - 2013 KWD1.92mn
  - 2014 KWD2.58mn

- **Balance Sheet.** To achieve these figures, Al Manar will need to build lending volumes and keep provisioning costs low. Building lending volumes will in turn require additional funding to become available. In terms of lending volumes, for 2012, Al Manar is budgeting for sales (the term used by management for new financing facilities) of KWD2.6mn per month. In terms of funding, the Company calculates that it would require just under KWD13mn in addition to funds from existing committed lines and from normal operational cash flow (largely repayments of currently outstanding financing receivables). Expected provisioning for the year is only KWD0.5mn.

  For 2013 and 2014, new business volumes are expected to rise a little each year but the rather more rapid growth in net profit reflects the overall growth in the financing receivables portfolio as new drawdowns of credit would considerably outpace repayments. Further additional funding lines of approximately KWD 12mn would, however, be necessary to achieve the targets unless other assets were sold.

  Forecast year end finance receivables are as follows: -

  2012 KWD44.2mn
  2013 KWD54.0mn
  2014 KWD62.1mn

  Even if achieved, this growth would leave leverage at just **0.92 times.**

  External funding needs for 2014 are forecast at KWD31.3mn (2013: KWD27.4mn).

  **CI Opinion on Forecasts.** The forecasts appear to be conservative overall in that they essentially represent no more than a return to the sort of balance sheet that the Company had at end 2009 – net financing receivables of KWD63.4mn with external funding of KWD34.7mn. The limiting factors in achieving these volumes will be borrower demand and, assuming that is sufficient, obtaining the required additional funding lines at rates that allow Al Manar to be competitive. Given the small size of the Company and its small market share, borrower demand should be there as long as pricing is attractive – something that will depend on the Company's own cost of funding.

## COMPANY HISTORY AND STRATEGIES

### History

Al Manar, which conducts its financial services activities in accordance with Islamic Shari'a principles, is regulated and supervised by the Central Bank of Kuwait.

### Major Shareholders as of June 2011

| Al Manar Main Shareholders | % |
|---|---|
| Investment House (Clients A/C-Qatari Client: KIPCO) shareholding) | 15.91 |
| Wafra International Investment Co (Clients account: PIFSS) | 14.65 |
| Financial Assets | 13.63 |
| Global Investment House Co (Clients account) | 9.66 |
| Other | 46.15 |
| **Total** | **100.00** |

Al Manar Financing and Leasing Company K.S.C. (Closed) ("Al Manar") was established in November 2003. Al Manar's main area of activity remains the provision of consumer finance, largely for the purchase of automobiles, although it also makes other types of loans to consumers and provides real estate and vehicle fleet financing for commercial customers. Al Manar currently (June 2011) employs 71 staff, down from 73 at end 2010 and 83 at end 2008.

## Market Position of Al Manar

The presence of an Islamic alternative to conventional financing structures alters the dynamics of the financing 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 financing markets in Kuwait. 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 Kuwait Finance House. Boubyan Bank is also a competitor, as is Kuwait International Bank. There are/were a number of other non-bank Sharia'a – compliant competitors but most have at least temporarily exited the market due to either financial difficulties (unrelated to financing activities) or changes in business model. Prior to 2008, Al Manar had been able to steadily grow its market share. However, the effective cessation of new lending over the last two years has meant that market share has since fallen to a relatively low level. This is, however, seen by management as more of an opportunity than a hindrance.

### Overall Market Growth

Management see overall consumer loan demand growing by 7% in 2012 and by 8% in 2013 as the domestic Kuwaiti economy recovers. Forecasts for the car market as a whole in Kuwait over the medium-term are positive. Sales growth of new units is expected to grow to just over 91.000 units, an increase of almost 4.5% - a much better performance than in 2010 when actual sales growth was at half this level. Looking further out, the average growth rate in car sales over the 2011-15 period is expected to be close to 5% p.a.

Stronger sales on new cars will mean an increase of supply to the used market – and important segment for Al Manar. With dealers offering very competitive deals and value-addition features (free insurance, free registration, extended warranties etc) for new car sales, pricing is expected to drop in the used car market as well, making a vehicle more affordable for the usually expatriate buyers of used vehicles.

## Ongoing Developments in the Consumer Credit Market

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

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

There were also changes to the way in which finance charges could be calculated – which had the effect of lowering the cost to the borrower (and negatively impacting the margins of the lender). The first was to require that interest calculation be made using the declining balance method. The second was to limit the spread over the CBK Discount Rate to 3% from the previous 4%. Moreover, once the loan rate is set at the outset of the contract, it cannot be varied until five years have passed. This essentially makes consumer lending (now termed "Personal Medium Term Loans") fixed rate – previously lenders could (and normally did) change rates when the Discount Rate changed. This change obviously poses dangers for lenders during periods when interest rates are at historic lows, as later rises in system rates would compress margins.

Between the regulatory changes and the effects of the economic downturn, the result was a fall in overall consumer lending volumes in the market as a whole. These fell by 14% over the 2007-10 period. Despite this, management believes that demand remains and should become apparent as incomes recover once the economy as a whole becomes more buoyant.

Other changes introduced in 2008 prohibited loan structures that included final balloon payments or loans that were repaid by new “top up” loans – both had previously had the effect of extending the life of a loan. Such sudden changes caused (and are still causing) transition shocks for consumer lenders as pre-March 2008 facilities reach the balloon repayment point.

In 2008, a Rescue Fund of KWD500mn from the government was established to help to resolve the difficulties of overburdened Kuwaiti consumer debtors. The aim was to assist Kuwaiti citizens, who were in arrears in their consumer financing and/or personal loans. There had been continuing pressure from the Parliament for action on this issue, and even after the establishment of the fund, similar pressures have continued for even larger relief schemes, with an obvious risk of the creation of moral risk. The terms of the relief are linked to the debt and instalment caps above, with priority being given to cases that were already the subject of legal action. Essentially, existing debt to the extent of up to KWD15,000 was restructured but with a maximum instalment level of 40% of salary. Amounts above that level were settled directly with the lenders by the Fund. As well as providing relief to borrowers, this also had the effect of helping lenders.

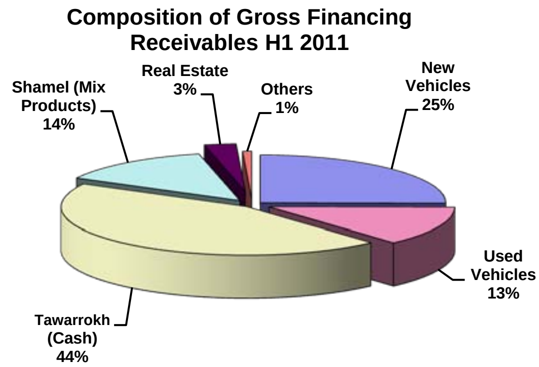
**Moral Hazard – and the effect on NPLs.** The main pressure for consumer debt relief has come from some sections of the Parliament. While the intentions may have been positive, there were some very obvious moral hazard risks and there was a large element of “won’t pay” mixed in with the genuine cases of “can’t pay”. A significant number of borrowers stopped payments in 2008-09 in order to make applications under the government scheme – and to await the outcome. This in turn temporarily boosted the NPL ratios of all lenders.

## Business Model

### Asset Base

Al Manar’s business plan is based on providing financing facilities to four main market segments. These are as follows:

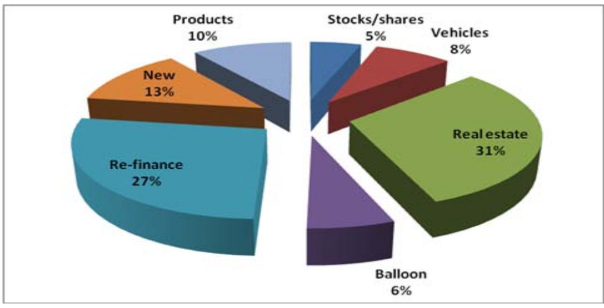
- Consumer Financing
  - Financing for the purchase of new vehicles
  - Financing for the purchase of used vehicles
  - Cash financing on an Islamic basis (Tasaheel) – essentially a personal loan




- Fleet Financing
- Real Estate Financing
- Investment

**Composition shifts over time.** The last two years have seen a marked increase in the proportion of what is formally described as Tawarrokh financing, in what is a much reduced portfolio (see chart above). It should, however, be noted that this Tawarrokh portfolio is itself made up of several different types of lending (largely refinance of previous facilities) as shown in the chart and table below, demonstrating that the portfolio is more diversified than would appear to be the case at first glance.

Balloon financing refers to the earlier market practice of structuring loans (especially for cars) in such a way that at the end of the financing period there was a single larger balloon payment –usually the refinanced by the lender – in order to allow monthly payments to be lower. This type of structure is no longer allowed.



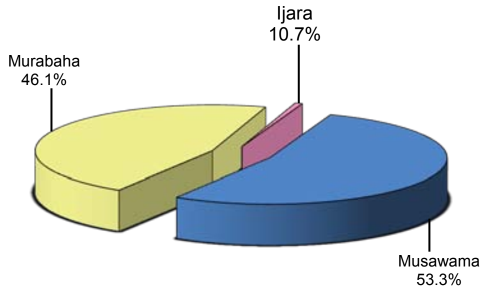

| Tawarroq Facilities | Purpose | |
|---|---|---|
| Purpose | KWD | % of total |
| Stocks/shares | 272,964 | 5 |
| Vehicles | 414,554 | 8 |
| Real estate | 1,626,998 | 31 |
| Balloon | 325,011 | 6 |
| Re-finance | 1,407,945 | 27 |
| New | 654,754 | 13 |
| Products | 529,269 | 10 |
| **Total** | **5,231,495** | **100%** |

**Pricing.** This will vary depending on a number of factors including tenor, nature of asset being financed, and purpose/use of asset as well as Al Manar's own cost of funds. Comparisons with competitor financing also plays a significant role. Despite its partially secured basis, pricing on real estate lending is at the high end because of tenor while the lowest rates are for vehicles for personal use.

**Lending structures used.** Apart from the Tawarrokh facilities, there are three different Islamic financing structures which are used. One of these (Ijara) is essentially linked to real estate financing and the volumes of Ijara financing have therefore shrunk in line with the fall in the real estate component of the overall financing portfolio.

No change to the structure distribution is planned at present, and volume growth when it takes place should follow a similar pattern.

**Financing Structures at End H1 2011**




### Consumer Financing

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

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

### Fleet Financing

This is geared to companies and agencies to finance their fleets of vehicles.

### 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 requires a first mortgage on the property or (more normally) to be structured as an Ijara contract. For income producing investment property, the maximum loan to value level is 65%. Raw land is not financed. The maximum tenor for real estate financing is 15 years.

**Funding**

Al Manar operates under an Investment Company license. It therefore cannot accept deposits. Funding must therefore come from capital or from borrowings. As the Company operates on a Sharia'a compliant basis, all borrowings are via Islamic structures on an effectively secured basis with assignment of financing receivables.

As the tenor of the facilities that Al Manar grants are medium or long-term, it seeks to borrow on a matching basis. While the Company aims to achieve a diversified funding base, the current funding base is rather narrow, something that management hopes to alter in 2012.

## PRINCIPAL BUSINESS STRATEGIES

Until relatively recently, the main challenge for Al Manar since the onset of the regional recession in 2008 had been: -

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

Al Manar has achieved a fair measure of success in all three areas.

- The main relationship bank (Kuwait Finance House) put a committedKWD10mn funding line in place in May 2011 and this has allowed Al Manar to once again seek to build lending volumes
- As regards asset quality, NPFRs have ceased to climb and are slowly beginning to decline. The NPFR ratio still remains high, however, given the continued decline in total portfolio due to the effective halt to new lending in 2009 and 2010.
- Operating expenses are falling

The Company is now therefore in a position to rebuild, beginning with the financing receivables book.

The processes above have also been accompanied by a 'back to basics' change in strategy. Available resources are to be redeployed back to Kuwait and, within Kuwait, into the core business. This will mean that previous plans for geographical diversification have been effectively shelved for at least the medium-term – and this may also mean divestment of the 12.5% stake in Qatar Finance House.

**Growth expectations** Al Manar management expects the gross portfolio (including deferred profits) to reach KWD55mn by end 2011. The figure excluding deferred profits is expected to be KWD37.7mn.

From that point onwards, the expectation is for growth of roughly 25% per annum. Management feels confident of being able to achieve these targets for the following reasons: -

- Growth will be from an artificially low base – financing demand was depressed due to a difficult local economy while Al Manar itself was constrained by lack of funding capacity.
- Adequate funding is now assured
- Population growth and demographics – population growth is strong, most of the population is aged 25 or less.
- Public transportation is not a realistic alternative to the car.
- Higher government spending under the Development Plan should boost both employment and earnings

- Reduced competition in the Sharia'a compliant segment of the financing industry.

## RISK FACTORS AND THEIR MITIGANTS

**Asset quality might again deteriorate further**

Non-Performing Financing Receivables (NPFR) increased very significantly over the period 2007-2010. This in turn forced additional provision charges which have impacted earnings.

- **Mitigant** Although NPFRs are expected to rise in money terms, as more active lending resumes, the NPFR ratio should fall back to 15% at end 2011 or early in 2012.

- **Mitigant** NPFRs in money terms peaked in 2009 and began a gradual fall in H1 2010 that has continued through the year.

.

**Borrowing / funding risks – availability of sufficient lines to fund planned portfolio growth**

As Al Manar does not have a core customer deposit base, funding is reliant upon on bank facilities and other wholesale funding sources.

- **Mitigant** While the global financial crisis and its effects on liquidity in Kuwait squeezed bank lending to Al Manar, the Company now has sufficient committed funding lines in place to accomplish at least its 2012 growth targets..

**Portfolio growth may not recover sufficiently to meet targets**

This will remain a risk but given assured funding, management are confident of achieving close to the growth targets outlined above in *Principal Business Strategies* and in the forecasts shown in the *Performance Outlook* section .

**Competitive risks**

- **Mitigant** The financing and banking market was very competitive before the crisis. However, the number of active Sharia'a compliant (as well as the number of conventional) consumer finance lenders has reduced. This has been the result of a combination of financial stress and changes in strategic direction. The result is that current financing capacity has dropped significantly, with the implication that competition in future will be less pricing-led.

**Profitability Risks**

Although Al Manar now has sufficient funding in place to grow its financing book, there may be risks that it cannot make a sufficient spread over cost of funds in order to both cover credit costs as well as producing a satisfactory return.

- **Mitigant** Currently available main funding line is on satisfactory terms and conditions.

## SIGNIFICANT RECENT MARKET DEVELOPMENTS

### ECONOMIC OUTLOOK - KUWAIT

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

**2010-11 Budget Year.** From the macroeconomic viewpoint, the Kuwaiti economy is doing well with governmental revenues swelling on the back of higher oil prices – volumes being largely constrained by general adherence to the country's OPEC production quota. In terms of oil price, the export price of Kuwaiti crude in the last fiscal year averaged USD82.50 per barrel. This produced oil revenues of KWD20.9 billion. The closing figures for the fiscal year 2010-11 saw a budget surplus of KWD5.3 billion (before transfers to the Reserve Fund for Future generations).This surplus comes despite increases in governmental spending (preliminary figures) to around KWD16.2 billion – a rise of 44%. This amount included the KWD1.2 billion Amiri grant to citizens. It should, however, be noted that this headline number includes growth in some types of expenditure (such as transfers into the social security fund or for military expenditures) which have very limited effect on domestic demand – expenditure that contributed to local demand was a lower KWD10.8 billion.

**Current Budget Year (2011-12).** While oil process remained fairly steady during the early months of the fiscal year, September saw the beginning of a slide with Kuwait Export Crude (KEC) prices dripping by USD12 to USD98. Although demand still appears to be good, there are concerns about the medium-term effects of the economic problems in Europe and (to a lesser extent) the US. As a result, IEA demand growth forecasts have also been cut. Notwithstanding these negative trends, Kuwait has enjoyed good oil prices for the first half of the fiscal year and another sizeable budgetary surplus appears assured – with KWD7.7mn being seen as the low end.

Given the size of the governmental sector, the limited range of existing non-hydrocarbon industrial development and the small size of the population and non-oil economy, the main driver of activity at the microeconomic level is ultimately government expenditure in general and government expenditure that boosts demand for domestic goods and services in particular. The USD100 billion four year development program agreed with parliament in 2010 should in due course provide a major boost to the domestic economy – if it is actually carried out in full. However, Kuwait has a history of failing to follow through on previously announced projects, often because of parliamentary objections once individual projects reach the contracts award stage – with BOT projects in particular drawing the ire of the MPs. Actual plan expenditure during fiscal year 2010-11 is estimated to have been KWD1.7 billion.

This factor and the tendency of project expenditure to be heaviest towards the end of a plan cycle means that the boost provided in calendar 2011 may be modest but it will be a boost, and should grow during H2 and the early part of 2012. Assuming oil prices do not weaken further, and assuming Kuwait avoids the sort of political turmoil that has impacted other nations in the MENA, the outlook is positive. At present, the continuing strong economic growth in China and India have underpinned oil prices, despite some more recent short duration falls in price. At present, the expectation is still that the average price for Kuwaiti crude should average around USD100 for the 2011-12 fiscal year.

## POLITICAL OUTLOOK - KUWAIT

This is usually not an important factor in the analysis of GCC credits in general, and Kuwaiti credits in particular. However, 2011 has turned out to be an unusual year in both the GCC and the wider MENA region. Fortunately (and despite some isolated incidents including the recent disturbances at the parliament building), the political situation in Kuwait remains generally calm. This does not, however, mean that there will be no indirect effects. The political upheavals appear to have significantly dented an already fragile investor confidence in the region. This has been reflected in lower trading volumes on stock exchanges, lower share prices and hesitancy by the private sector in investing in new projects. This in turn has impacted loan demand across the GCC, including in Kuwait.

Of more concern politically in Kuwait is the long-standing adversarial relationship between parliament and Government. As almost any new project or development initiative is greeted by accusations of corruption by factions in Parliament, government reacts all too often by delaying, re-tendering or simply cancelling badly needed projects. The result is a country that has to import some hydrocarbons, which cannot meet peak electricity demand and which, from a once leading position, now has a crumbling infrastructure by GCC standards. While the recent dissolution of parliament may lead to a more coherent legislature and a better relationship with government, hopes are not high.

# KEY FINANCIAL ISSUES

## AUDITORS AND DISCLOSURE

The consolidated financial statements of Al Manar and its subsidiaries were prepared by management in accordance with International Financial Reporting Standards. The 2010 financial statements were audited to International Accounting Standards by the Kuwaiti practice of Al-Fahad & Co. Deloitte & Touche and by Al Humaidi & Partners (an independent member of Baker Tilly International). The 2010 accounts are unqualified. The June 2011 financial statements were reviewed by the same two audit firms.

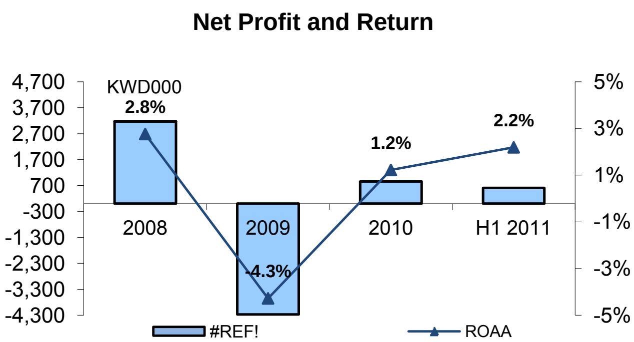
**Past Accounting Issues.** The 2008 accounts were qualified as, based upon tests performed against the Company's computer processing environment, the auditors concluded that there were some deficiencies in the controls for maintaining accounts receivable records. This resulted in an inability to determine the related impact on finance revenues. The amounts that the auditors were able to identify in relation to prior years were restated, but they were not able to determine an accurate impact on accounts receivable and finance revenues of the Group by other audit procedures.

Re-stated net profit for 2007 was KWD3.6mn against KWD4.7mn previously booked. During 2008, Al Manar management discovered that the method previously adopted by the Group for revenue recognition amortized the deferred revenues on non-performing facilities into finance revenues. As per CBK instructions, income from non-performing facilities / loans should be suspended. The effect of the error was overstatement of finance revenues for the year ended 31 December 2007 by KWD6k and for previous years by KWD128k.

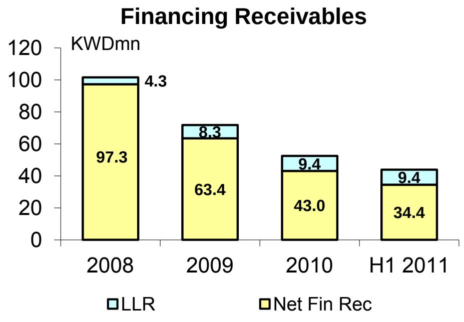
Controls were enhanced in 2009 and the qualification was removed at that time.

## FINANCIAL PERFORMANCE FYE DECEMBER 2010 and H1 2011

**The recovery begins – return to modest profitability in 2010.** Al Manar had a very difficult year in 2009 with revenues from the core business declining as volumes fell, while significant losses were shown on investments and on the share of the results of an associate (Qatar Finance House). Net financing income fell by 17.9% while non-financing income was overall negative. The result was a loss of KWD258k at the operating level and a loss of KWD4.3mn at the net level after heavy loss provisions for non-performing financing receivables.




Performance in 2010 was better. While net financing income was flat to 2009 at KWD3.8mn (the level of net financing receivables fell by32.2% during the year while the financing differential fell by 38bp to 2.49%), much lower investment losses of KWD0.8mn and a return to profit by the associate (KWD0.2mn) helped operating profit to climb to KWD2.0mn while lower provisioning of KWD1.1mn helped net profit to rise to KWD0.9mn. Returns were, however, very low with ROAA at 1.22% and ROAE at 2.53%.




**Positive trend continues in H1 2011 – but challenges remain.** Despite a further 20% fall in net financing receivables to just KWD34.4mn, net financing income of KWD1.6mn in H1 2011 was equivalent to 41.1% of full year 2010. This would appear to indicate that once Al Manar is able to begin to rebuild financing volumes, it should be able to steadily rebuild core earnings. Non-core earnings are, however, another matter. Al Manar's small investment portfolio continued to yield losses in H1 2011, while there are few other sources of significant revenue.

**Tight expense controls begin to show results...** Operating expenses in 2010 at KWD1.8mn were 17.1% down on 2009. Performance in H1 2011 in this area was also satisfactory – with operating expenses for the period of KWD0.8mn down by 12.7% on the corresponding period of 2010.

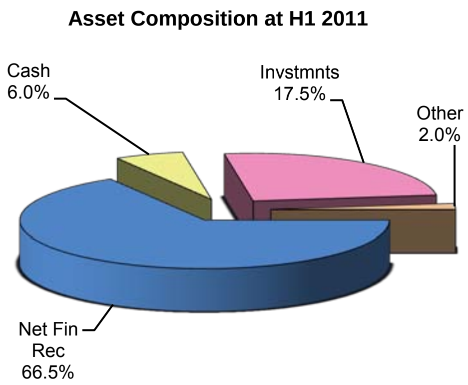
**...but operating profit slips in H1.** At KWD0.7mn, operating profit was down by 32.0% from the level achieved in H1 2010 as the better performance on costs was outweighed by the fall in income.

**Provisioning charge low – but net profit halves.** Loan loss provisions taken in H1 were only KWD24k. In H1 2010, there was a net recovery of KWD296k. As full year 2010 provisions taken were KWD1.1mn, it remains possible that the H2 2011 provisions to be taken may be rather larger than those taken in H1. There is certainly room for additional reinforcement of loan loss reserves given a coverage ratio of only 46.3% as at end-June. Net profit in H1 halved to KWD0.6mn.

**Returns recover – but remain low.** Annualised ROAA in H1 improved (compared to full year 2010 – there was actually a drop compared to H1 2010) to 2.23%, but this remained some way below the returns earned before 2009. Annualised ROAE was a low 3.57%. It should, however, be noted that in 2010, all of the additional loan loss provisioning was taken in H2 – and that therefore the full year 2011 returns may not match the annualised returns based on H1 P/L.

## BALANCE SHEET

**Asset base continues to shrink – driven by the declining financing portfolio.** As the net financing portfolio made up 78.2% of total assets at end 2009, it was always very likely that any significant fall in this portfolio would also produce a significant fall in total assets. With the net financing portfolio continuing to shrink significantly in both 2010 and in H1 2011, there was indeed a corresponding decline in the overall asset base. Total assets fell by 27.9% in 2010 to KWD58.5mn and then by a further 11.6% in H1 2011 to KWD52.0mn. The earlier fall in 2009 had been a substantial 31.4% and as at end H1 2011, total assets were only 44% of the KWD118.3mn at end 2008.




To some extent, this shrinkage in the financing portfolio was forced due to the difficulty during 2009-10 in arranging new sources of funding. It was only in Q2 2011 that a new line from KFH was finalised (see *Funding* below), allowing active new lending to resume.

**Net financing receivables continue to decline.** The last year in which the Company saw growth in financing receivables was 2008. Since then, there has been a continuing decline at both the gross and net levels, as can be seen from the chart to the left.

Now that new funding is in place, management can again begin to grow the financing receivables book.

**Investments decline in 2010, but recover in H1 2011.** Although investments remained the second largest asset class in 2010, the total value fell by 10.6% to KWD12.7mn, largely due to a KWD0.8mn decline in the holdings of investment properties. This latter decline was reversed in H1 2011 with the investment properties asset class rising in value by KWD0.8mn, returning to a level of KWD2.0mn.

Apart from the investment properties, all investments (excluding in associates) are held at fair value through the P/L. However, in terms of composition, the end-June 2011 KWD7.4mn securities portfolio was largely made up of unquoted Kuwaiti shares. Management have, however, indicated that of that total, approximately KWD3.9mn represented holdings where a sale would be relatively easy to arrange. Apart from a KWD1.8mn investment in a takaful provider, most of the investments are in either real estate companies or in companies with a significant real estate component to their business model.

**Associated company – QFH.** In 2008, Al Manar originally acquired a 20% stake in Qatar Finance House Company (QFH), a company incorporated in Qatar, whose principal activity is consumer financing in accordance with Sharia'a Law. Al Manar's investment in QFH was equivalent to KWD3.8mn at end 2010, which includes goodwill arising on acquisition of KWD1.9mn. The carrying value of this investment was unchanged as at end H1 2011.

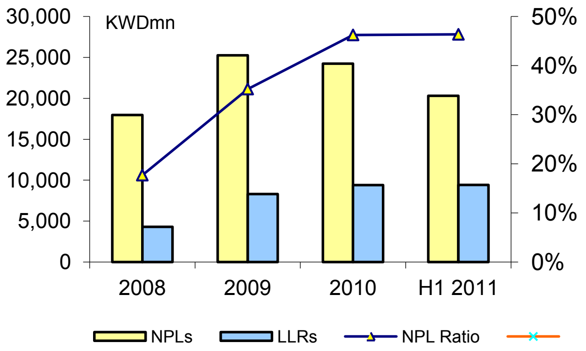
This investment is no longer core and it is understood that Al Manar is exploring options for a possible sale of its remaining 14.79% stake in order to redeploy the resources released into its Kuwaiti operations. The company is profitable, had a recent increase in capital and enjoys satisfactory funding lines provided by its other (Qatari governmental sector) shareholders and should therefore be an attractive purchase for anyone seeking to expand into this sector in Qatar.

**Investment properties.** These are described in the table below. The rentals revenues are limited in volume and therefore do not significantly affect the top line.

| Area | Size ( Square Meter) | Number Of Floors | Monthly Income KWD | Market Value KWD |
|---|---|---|---|---|
| Al-Mahboola | 500 | Basement + Ground + 5 Floors + Outside Shop | 5,200 | 590,000 |
| Al-Fahaheel | 747 | Ground + 2 Floors | 2,750 | 735,000 |
| Al-Mangaf | 1000 | Two Buildings :<br><br>Building 1 is existing Ground + 5 Floors<br><br>Building 2 is nearing completion: Ground + 7 Floors+ Outside Shop | <br><br>3,500<br><br>Expected 4,500 | 893,000 |

**Asset quality stabilised in 2010 – but remained poor.** NPFRs jumped sharply in 2008 (almost tripling to KWD18.0mn) and rose further to KWD25.3mn in 2009. The position, however, stabilised in 2010, with NPFRs falling to KWD24.2mn. In ratio terms, however, the NPFR ratio increased from 35.2% to 46.2% due to the decline in the overall portfolio as performing financings were repaid, leaving behind the non-performing contracts.

**Significant improvement in money NPFRs in H1 2011 – but overall asset quality remains unsatisfactory.** In monetary terms, NPFRs fell further by 16.2% to KWD20.3mn in the first six months of 2011.. However, the continued erosion of the overall portfolio meant that the NPFR ratio actually rose, increasing by 12bp to 46.4%.




**Low loan loss reserve coverage – although slowly improving.** Al Manar has historically tended to maintain fairly low LLR ratios, depending more on security coverage and the efforts of its collections department to recover past due amounts. This low LLR coverage level has been a consistent constraining factor on ratings and was the case even before the crisis years. Following the sharp rise in NPFRs in 2008 the coverage level declined to just 23.9%. Thereafter it gradually rose, increasing to 32.9% at end 2009 and 46.2% at end 2010. Despite a lack of additions to LLR in H1 2011, the coverage ratio increased to 46.3% as a result of the fall in NPLs. While welcoming the slow improvement, it remains the opinion of CI that LLR coverage ratios in any consumer finance business should be much higher, reflecting the effective collectable value of security and the intrinsic risk of this type of lending.

**Further significant improvement in LLR coverage level unlikely.** This probability stems from two factors. The first is policy – Al Manar management considers the current coverage level to be approaching what they (but not CI) would see as an adequate level – and base their coverage on the Central Bank of Kuwait minima for classified loans and for general reserves. These minima are based on outstandings net of qualifying collateral[1].The second is capacity. To build the LLRs significantly requires earnings capacity at the operating level – and at Al Manar, operating profit has been declining. Until earnings capacity is rebuilt through portfolio growth, adding significantly to LLR would be very difficult even if this became management policy.

| Aging of Impaired Receivables | June 2011 | December 2010 | December 2009 | Dec- June Change % |
|---|---|---|---|---|
| 91-180 Days | 3,207,237 | 4,404,993 | 5,796,897 | (27.2) |
| 181-360 Days | 1,371,645 | 5,905,104 | 7,963,255 | (76.8) |
| 360 + Days | 15,738,408 | 13,926,861 | 11,501,932 | 13.0 |
| **Total KWD** | **20,317,290** | **24,236,958** | **25,262,084** | **(16.2)** |

**Classification of Impaired Financing Receivables.** The table below shows the classification levels of NPFRS since 2009. As regards the improving position, management has commented that collections of impaired receivables improved in 2010 and (in particular) in 2011. In the consumer book there had been an element of 'won't pay' in that some debtors had hoped to benefit form further governmental debt relief schemes. Despite the urging of some parliamentarians, the government has made it clear that no additional schemes will be forthcoming and debtors with the capacity to pay are slowly regularising their positions with their lenders. In the case on commercial facilities, the economic conditions in the Kuwait market have begun to improve and some of these debtors too are now making payments once again.

[1] *CI will usually take a very conservative view on the value of collateral in terms of providing an alternative source of repayment for a loan – and particularly where the collateral is in the form of an asset class that itself has limited liquidity (such as real estate) or where foreclosure is likely to be a lengthy process.*

Specific provision as per CBK requirements is taken net of certain categories of collateral, to which CBK instructions are applicable, for receivables aging above 90 days as per the following schedule:

- 91 – 180 days are provided at 20%,
- 181 – 360 days are provided at 50%,
- 360 + days are provided at 100%

These minimum provision requirements are, however, set on the basis of the loan amount less acceptable collateral (see below). Some lenders (and this is seen with the commercial banks in particular) may choose to maintain LLR at a higher level than the regulatory minimum.

**Collateral and Other Security Held**

In the case of Al Manar, management has chosen not to make provisions that are significantly above the regulatory minimum. The collateral/security position at end 2010 and at June 2011 on past due receivables is shown in the table below.

| Collateral & Other Security KWDmn | June 2011 | December 2010 |
|---|---|---|
| 91-180 Days | 2,506,673 | 2,858,663 |
| 181-360 Days | 1,091,000 | 2,185,825 |
| Over 360 days | 9,103,938 | 9,918,018 |
| **Total** | **12,701,611** | **14,962,506** |

## FUNDING & LIQUIDITY

**The 2008-10 credit squeeze hit Al Manar and its funding sources - causing a severe tightening of liquidity, but the position has now improved.** The global and (more specifically) the regional liquidity squeeze, had a direct impact on Al Manar's liquidity position from 2008 onwards. Al Manar's existing credit lines were reduced in 2008-09 and prospective lines became unavailable as local and regional banks and financial institutions reined in their exposures – with funding lines to potential competitors an obvious choice for cuts.

**Default in late 2008 – remedied in early 2009.** The inability to source replacement funding coupled with asset quality deterioration (and therefore a sharp slowing of inflows from the existing financing portfolio) led to delays in repaying short-term financial obligations. In late 2008, this culminated in an effective default on a payment of KWD16.87mn of Wakala payables due to two investment companies in Qatar. Replacement funding provided by Kuwait Finance House (KFH) allowed the delayed amounts to be repaid in full in H1 2009.

**Funding constraints almost freeze new lending 2009-10.** Following the late 2008 problems, Al Manar management adopted an even more conservative stance towards funding and liquidity – with new lending being effectively frozen until sufficient committed funding lines could be put in place

Although Al Manar's liquidity and funding profile was supported by the liquidity support measures introduced by the Central Bank of Kuwait (these measures included allowing investment and financing companies to borrow directly from Kuwaiti public institutions), normal lending did not resume until the new KWD10mn KFH line was put in place in May 2011. As of end Q2 2011, less than KWD3mn of this line had been utilised.

**Current funding position.** As at end H1 2011, total Murabaha and Wakala payables totalled KWD15.0mn, down from KWD22.1mn at end 2010 and from KWD31.3mn a year earlier. These facilities were provided by two Kuwaiti Islamic banks and by the Public Institution for Social Security, (Al Manar main shareholder).

Available lines for current use (i.e. lines not yet fully drawn or spare capacity under revolving facilities totalled KWD6.4mn as at end-October 2011. In addition to these existing funding sources, Al Manar is also actively discussing other potential new lines, including a KWD5mn line from a foreign bank and a further KWD5mn line from one of its existing Islamic bank lenders.

## CAPITAL BASE

**Small equity base.** Al Manar has never had a large paid in equity base and the KWD4.2mn loss posted in 2009 wiped out retained earnings. As a result total equity at end H1 2011 was just 34.8mn, of which KWD30.9mn was share capital with a further KWD0.3mn being share premium.

**Low earnings mean low internal capital generation...** The fall in the financing portfolio had led to steady erosion in operating profit. Added to this, need to add to LLRs has meant a low net profit as well, and therefore low additions to reserves. At this point leverage is very low due to the effective cessation in lending in 2009-10, but as Al Manar seeks to re-grow its portfolio, leverage will rise. However, the regulatory leverage cap for institutions with an investment company license (including Al Manar) is 2:1.

**...but current capital is adequate.** Current management plans envisage the net financing portfolio rising to KWD38mn by end 2011 and then to KWD47.5mn by end 2012. The latter level would imply a level of leverage in the region of just 0.77 while the forecast growth to end 2013 would still raise leverage only to the approximately 1.1 level. Al Manar is therefore unlikely to need to turn to its shareholders for additional capital until 2013 at the earliest as long as the Company does not again shift into loss. There are currently no plans to seek additional capital.

## APPENDIX I

### SUPERVISION & REGULATION

Al Manar is supervised and regulated by the Central Bank of Kuwait and by the Ministry of Commerce. In the medium-term, Al Manar plans to apply for a listing on the KSE. Currently, Al Manar is awaiting the new listing requirements to be applied by the CMA (Capital Markets Authority). After a listing it will also be subject to the regulations and reporting requirements of the KSE and the CMA. 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 manner similar to that of commercial banks and must obtain central bank approval and permission before the release of financial information. The supervision department of the central bank periodically audits the Company for compliance with regulatory requirements. The regulatory regime in Kuwait includes regular on-site inspections as well as ongoing off-site supervision.

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

a) Maximum interest rates (related to the central bank discount rate).

b) Maximum tenors.

c) Repayment ability assessment.

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

### COLLATERAL POLICY

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

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

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

# AL MANAR FINANCING AND LEASNING COMPANY K.S.C

KW60

| SUMMARY RATIOS | External Audit | AUD 06/2011 | AUD 12/2010 | AUD 12/2009 | AUD 12/2008 |
|---|---|---|---|---|---|
| **A . SIZE FACTORS (KWD 000)** | | | | | |
| 1 . Total Assets | | 51,973 | 58,507 | 81,120 | 118,253 |
| 2 . Net Financing Receivables | | 34,411 | 43,026 | 63,432 | 97,253 |
| 3 . Total Equity | | 34,779 | 34,164 | 33,349 | 37,517 |
| 4 . Tangible Net-Worth | | 34,773 | 34,155 | 33,326 | 37,496 |
| 5 . Total Debt | | 15,323 | 22,446 | 45,563 | 77,574 |
| 6 . Net Profit | | 615 | 853 | -4,268 | 3,170 |
| 7 . Assets Under Management | | | | | |
| **B . ASSET QUALITY (%)** | | | | | |
| 8 . Total Assets Growth Rate | | -11.17 | -27.88 | -31.40 | 6.06 |
| 9 . FR-Loss Reserve / Financing Receivables | | 21.48 | 17.91 | 11.57 | 4.22 |
| 10 . Non-Performing FR / Financing Receivables | | 46.36 | 46.24 | 35.22 | 17.69 |
| 11 . FR-Loss Reserve / Non-Performing FR | | 46.33 | 38.74 | 32.85 | 23.87 |
| 12 . Unprovided Non-Performing FR / Total Equity | | 31.35 | 43.46 | 50.87 | 36.45 |
| 13 . FR-Loss Provision Charge / Financing Receivables | | -0.05 | -2.08 | -5.59 | -0.99 |
| **C . CAPITAL AND LEVERAGE** | | | | | |
| 14 . Total Equity Growth Rate (%) | | 1.80 | 2.45 | -11.11 | 1.11 |
| 15 . Total Equity / Total Assets (%) | | 66.92 | 58.39 | 41.11 | 31.73 |
| 16 . Leverage (Times) | | 0.49 | 0.71 | 1.43 | 2.15 |
| 17 Leverage - Excluding Minority Interest (Times) | | 0.49 | 0.71 | 1.43 | 2.15 |
| 18 . Total Liabilities / Tangible Net-Worth (Times) | | 0.49 | 0.71 | 1.43 | 2.15 |
| 19 . Long-Term Debt / Total Equity (Times) | | 0.00 | 0.00 | 0.33 | 0.41 |
| 20 . Total Debt / Total Equity (Times) | | 0.44 | 0.66 | 1.37 | 2.07 |
| **D . LIQUIDITY AND COVERAGE** | | | | | |
| 21 Current Ratio (Times) | | | | | |
| 22 . Cash + QI + ST Gross FR / ST Debt (Times) | | 0.21 | 0.08 | 0.08 | 1.10 |
| 23 . Cash & Quoted Investments / Total Assets (%) | | 6.17 | 2.96 | 3.24 | 3.01 |
| 24 . Cash & Quoted Investments / Total Liabilities (%) | | 18.66 | 7.12 | 5.51 | 4.41 |
| 25 . Net Financing Receivables / Total Assets (%) | | 66.21 | 73.54 | 78.19 | 82.24 |
| 26 . Net Financing Receivables / Total Liabilities (%) | | 193.75 | 164.96 | 128.88 | 129.90 |
| **E . PROFITABILITY (%)** | | | | | |
| 27 . Return on Average Assets (ROAA)* | | 2.23 | 1.22 | -4.28 | 2.76 |
| 28 . Return on Average Equity (ROAE)* | | 3.57 | 2.53 | -12.05 | 8.50 |
| 29 . Funding Cost | | 3.16 | 6.91 | 8.06 | 8.89 |
| 30 . Financing Income on Average Earning Assets | | 5.29 | 11.20 | 10.54 | 11.76 |
| 31 . Financing Differential | | 2.14 | 4.29 | 2.49 | 2.87 |
| 32 . Non-Financing Income / Gross Income | | -8.44 | -3.01 | -104.31 | 32.38 |
| 33 . Operating Expenses / Gross Income | | 55.33 | 47.32 | 113.85 | 38.12 |
| 34 . Operating Profit Growth Rate | | -66.85 | -859.62 | -106.08 | -11.25 |
| 35 . Operating Profit / Average Assets | | 1.18 | 2.81 | -0.26 | 3.70 |
| 36 . Risk Provisioning Charge / Operating Profits | | -3.63 | -55.65 | 1,552.86 | -23.72 |
| 37 . Realized Income / Gross Income | | 100.00 | 100.00 | 100.00 | 100.00 |
| 38 . Dividend Payout Ratio | | | | | 84.88 |
| **F . INVESTMENT** | | | | | |
| 39 . Market Capitalization (KWD 000) | | | | | |
| 40 . Share Price (KWD) | | | | | |
| 41 . Earnings Per Share (KWD) | | 0.002 | 0.003 | -0.014 | 0.010 |
| 42 . Earnings Per Share Growth (%) | | -27.93 | -119.98 | -234.15 | -13.11 |
| 43 . Price / Earnings Ratio (Times) | | | | | |
| 44 . Price / Book Ratio (Times) | | | | | |
| 45 . Cash Dividend Per Share (KWD) | | | | | |
| 46 . Stock Dividend Per Share (%) | | | | | |
| **G . REFERENCE DATA** | | | | | |
| . Exchange Rate (Units per USD) | | 0.279 | 0.288 | 0.287 | 0.276 |
| . Inflation Rate (%) | | | 2.96 | 3.99 | 10.58 |

* Annualised ratios for June 2011.

## AL MANAR FINANCING AND LEASNING COMPANY K.S.C

| External Audit | 06/2011 | AUD | AUD | AUD | AUD | Growth (%) | | | | Breakdown (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE SHEET - ASSETS (KWD 000)** | **USD 000** | **06/2011** | **12/2010** | **12/2009** | **12/2008** | **06/2011** | **12/2010** | **12/2009** | **12/2008** | **06/2011** | **12/2010** | **12/2009** | **12/2008** |
| Cash & Banks | 11,154 | 3,113 | 1,600 | 2,430 | 3,251 | 94.54 | -34.15 | -25.26 | -8.58 | 5.99 | 2.74 | 3.00 | 2.75 |
| Net Financing Receivables | 123,294 | 34,411 | 43,026 | 63,432 | 97,253 | -20.02 | -32.17 | -34.78 | 11.00 | 66.21 | 73.54 | 78.19 | 82.24 |
| Other Receivables | | | | | 200 | | | -100.00 | -96.10 | | | | 0.17 |
| Prepayments & Accruals | 164 | 46 | 69 | 110 | 239 | -33.41 | -37.76 | -53.81 | -38.10 | 0.09 | 0.12 | 0.14 | 0.20 |
| Investments | 48,712 | 13,595 | 12,676 | 14,175 | 17,091 | 7.25 | -10.57 | -17.06 | 17.76 | 26.16 | 21.67 | 17.47 | 14.45 |
| Net Fixed Assets | 25 | 7 | 9 | 41 | 78 | -18.24 | -79.16 | -47.54 | -23.94 | 0.01 | 0.01 | 0.05 | 0.07 |
| Due From Associates | | | | | | | | | | | | | |
| Goodwill & Other Intangible Assets | 22 | 6 | 9 | 23 | 21 | -32.41 | -59.81 | 8.17 | -29.39 | 0.01 | 0.02 | 0.03 | 0.02 |
| Other Assets | 2,847 | 795 | 1,118 | 910 | 120 | -28.95 | 22.94 | 658.32 | -24.55 | 1.53 | 1.91 | 1.12 | 0.10 |
| **TOTAL ASSETS** | **186,217** | **51,973** | **58,507** | **81,120** | **118,253** | **-11.17** | **-27.88** | **-31.40** | **6.06** | **100.00** | **100.00** | **100.00** | **100.00** |

## AL MANAR FINANCING AND LEASNING COMPANY K.

| External Audit | 06/2011 | AUD | AUD | AUD | AUD | Growth (%) | | | | Breakdown (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE SHEET - LIABILITIES (KWD 000)** | **USD 000** | **06/2011** | **12/2010** | **12/2009** | **12/2008** | **06/2011** | **12/2010** | **12/2009** | **12/2008** | **06/2011** | **12/2010** | **12/2009** | **12/2008** |
| Short-Term Debt | 54,901 | 15,323 | 22,446 | 34,655 | 62,174 | -31.73 | -35.23 | -44.26 | 56.14 | 29.48 | 38.36 | 42.72 | 52.58 |
| Short-Term Payables | 5,278 | 1,473 | 1,438 | 381 | 965 | 2.47 | 277.37 | -60.53 | -56.20 | 2.83 | 2.46 | 0.47 | 0.82 |
| Prepayments & Accruals | 1,428 | 399 | 460 | 411 | 587 | -13.31 | 11.76 | -29.93 | 11.64 | 0.77 | 0.79 | 0.51 | 0.50 |
| Long-Term Debt | | | | 10,908 | 15,399 | | -100.00 | -29.17 | -51.39 | | | 13.45 | 13.02 |
| Long-Term Payables | | | | | | | | | | | | | |
| Reserve for Retirement Pay & Insurance | | | | | 246 | | | -100.00 | 46.83 | | | | 0.21 |
| Due To Unc. Subsidiaries & Associates | 0 | 0 | 0 | 1,416 | 1,364 | | -100.00 | 3.83 | | | | 1.75 | 1.15 |
| Other Liabilities | | | | | | | | | | | | | |
| **TOTAL LIABILITIES** | **61,607** | **17,194** | **24,343** | **47,771** | **80,736** | **-29.37** | **-49.04** | **-40.83** | **8.52** | **33.08** | **41.61** | **58.89** | **68.27** |
| **EQUITY:** | | | | | | | | | | | | | |
| **Equity Attributable To Shareholders of Parent Co.** | | | | | | | | | | | | | |
| Share Capital | 110,623 | 30,875 | 30,875 | 30,875 | 30,859 | | | 0.05 | 0.51 | 59.41 | 52.77 | 38.06 | 26.10 |
| Share Premium | 1,118 | 312 | 312 | 312 | 55 | | | 463.38 | 105.05 | 0.60 | 0.53 | 0.38 | 0.05 |
| Less: Treasury Shares | | | | | | | | | | | | | |
| Statutory Reserve | 4,536 | 1,266 | 1,266 | 1,179 | 1,179 | | 7.38 | | 37.92 | 2.44 | 2.16 | 1.45 | 1.00 |
| Voluntary Reserve | 4,457 | 1,244 | 1,244 | 1,157 | 1,157 | | 7.52 | | 38.93 | 2.39 | 2.13 | 1.43 | 0.98 |
| General Reserve | | | | | 249 | | | -100.00 | 25.46 | | | | 0.21 |
| Cumulative Change in Fair Value | | | | | | | | | | | | | |
| Gain on Sale of Treasury Shares | | | | | | | | | | | | | |
| Foreign Currency Translation | 414 | 116 | 116 | 153 | 77 | | -24.43 | 98.33 | | 0.22 | 0.20 | 0.19 | 0.07 |
| Proposed Dividend | | | | | | | | | | | | | |
| Retained Earnings | 3,464 | 967 | 352 | -327 | 3,942 | 174.57 | -207.75 | -108.29 | -12.22 | 1.86 | 0.60 | -0.40 | 3.33 |
| **SUB-TOTAL** | **124,611** | **34,779** | **34,164** | **33,349** | **37,517** | **1.80** | **2.45** | **-11.11** | **1.11** | **66.92** | **58.39** | **41.11** | **31.73** |
| Minority Interest | | | | | | | | | | | | | |
| **TOTAL EQUITY** | **124,611** | **34,779** | **34,164** | **33,349** | **37,517** | **1.80** | **2.45** | **-11.11** | **1.11** | **66.92** | **58.39** | **41.11** | **31.73** |
| **TOTAL LIABILITIES & EQUITY** | **186,217** | **51,973** | **58,507** | **81,120** | **118,253** | **-11.17** | **-27.88** | **-31.40** | **6.06** | **100.00** | **100.00** | **100.00** | **100.00** |

## AL MANAR FINANCING AND LEASNING COMPANY K.S.C

| External Audit | 06/2011 | AUD | AUD | AUD | AUD | Growth (%) | | | | % of Average Total Assets | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **PROFIT AND LOSS ACCOUNT (KWD 000)** | **USD 000** | **06/2011** | **12/2010** | **12/2009** | **12/2008** | **06/2011** | **12/2010** | **12/2009** | **12/2008** | **06/2011** | **12/2010** | **12/2009** | **12/2008** |
| Interest Income / Financing Income | 7,790 | 2,174 | 6,185 | 8,770 | 11,268 | -64.85 | -29.47 | -22.17 | 19.96 | 3.94 | 8.86 | 8.80 | 9.81 |
| Interest Expense / Financing Expense | -2,135 | -596 | -2,349 | -4,960 | -6,625 | -74.64 | -52.63 | -25.13 | 22.82 | -1.08 | -3.37 | -4.98 | -5.77 |
| **NET INTEREST INCOME / NET FINANCING INCOME** | **5,656** | **1,578** | **3,836** | **3,810** | **4,643** | **-58.85** | **0.67** | **-17.94** | **16.09** | **2.86** | **5.49** | **3.82** | **4.04** |
| Fees & Commission Income | | | 249 | 272 | 772 | -100.00 | -8.39 | -64.74 | 9.36 | | 0.36 | 0.27 | 0.67 |
| Rental Income | | | 50 | 23 | | -100.00 | 114.76 | | | | 0.07 | 0.02 | |
| Dividend Income | | | | 2 | 87 | | -100.00 | -98.20 | -27.94 | | | 0.00 | 0.08 |
| Foreign Exchange Income | | | | -839 | -584 | | -100.00 | 43.69 | 5812.07 | | | -0.84 | -0.51 |
| Investment Income | -978 | -273 | -838 | -1,593 | 1,419 | -67.41 | -47.43 | -212.29 | -4.93 | -0.49 | -1.20 | -1.60 | 1.23 |
| Share of Results of Unc. Subsidiaries & Associates | | | 188 | -454 | 177 | -100.00 | -141.37 | -357.01 | | | 0.27 | -0.46 | 0.15 |
| Profit on Sale of Unc. Subsidiaries & Associates | | | | | | | | | | | | | |
| Other Income | 537 | 150 | 238 | 644 | 353 | -36.99 | -63.02 | 82.21 | -57.13 | 0.27 | 0.34 | 0.65 | 0.31 |
| **NON-INTEREST INCOME / NON-FINANCING INCOME** | **-440** | **-123** | **-112** | **-1,945** | **2,224** | **9.50** | **-94.23** | **-187.48** | **-29.03** | **-0.22** | **-0.16** | **-1.95** | **1.94** |
| **GROSS INCOME** | **5,215** | **1,456** | **3,723** | **1,865** | **6,867** | **-60.91** | **99.67** | **-72.84** | **-3.73** | **2.63** | **5.33** | **1.87** | **5.98** |
| General & Administrative Expense | 2,858 | 798 | 1,709 | 2,062 | 2,500 | -53.33 | -17.11 | -17.52 | 21.55 | 1.44 | 2.45 | 2.07 | 2.18 |
| Lease / Rental Expense | | | | | | | | | | | | | |
| Depreciation & Amortization | 28 | 8 | 53 | 59 | 67 | -85.43 | -11.32 | -11.13 | -23.11 | 0.01 | 0.08 | 0.06 | 0.06 |
| Other Expenses | | | | 2 | 50 | | -100.00 | -96.61 | -74.89 | | | 0.00 | 0.04 |
| **OPERATING EXPENSES** | **2,885** | **805** | **1,762** | **2,123** | **2,617** | **-54.29** | **-17.02** | **-18.88** | **11.63** | **1.46** | **2.52** | **2.13** | **2.28** |
| **OPERATING PROFIT** | **2,330** | **650** | **1,962** | **-258** | **4,249** | **-66.85** | **-859.62** | **-106.08** | **-11.25** | **1.18** | **2.81** | **-0.26** | **3.70** |
| Provisions For Doubtful Financing Receivables | -85 | -24 | -1,092 | -4,010 | -1,008 | -97.84 | -72.78 | 297.92 | -10.39 | -0.04 | -1.56 | -4.02 | -0.88 |
| Other Provisions | | | | | | | | | | | | | |
| **GROSS PROFIT** | **2,245** | **627** | **870** | **-4,268** | **3,242** | **-27.98** | **-120.38** | **-231.68** | **-11.51** | **1.13** | **1.25** | **-4.28** | **2.82** |
| Extraordinary Items | | | | | | | | | | | | | |
| Taxes | -43 | -12 | -17 | | -72 | -30.34 | | -100.00 | 55.69 | -0.02 | -0.02 | | -0.06 |
| **NET PROFIT (LOSS)** | **2,202** | **615** | **853** | **-4,268** | **3,170** | **-27.93** | **-119.98** | **-234.66** | **-12.37** | **1.11** | **1.22** | **-4.28** | **2.76** |
| **APPROPRIATION OF SURPLUS:** | | | | | | | | | | | | | |
| Attributable To Minority Interests | | | | | | | | | | | | | |
| Dividends | | | | | 3,070 | | | -100.00 | 44.27 | | | | |
| **Transfer To Equity** | **2,202** | **615** | **853** | **-4,268** | **100** | **-27.93** | **-119.98** | **-4379.59** | **-93.30** | | | | |
| Bonus Shares Issued | | | | | 158 | | | -100.00 | -47.46 | | | | |
| **Changes In Equity Not Through P&L** | **2,202** | **615** | **815** | **-4,168** | **256** | **-24.63** | **-119.56** | **-1730.09** | **-73.59** | | | | |

# CORPORATE RATIO FORMULAE - FINANCING, LEASING & INVESTMENT

| | |
|---|---|
| **A SIZE FACTORS** | |
| 1 . TOTAL ASSETS | TOTAL ASSETS |
| 2 . NET FINANCING RECEIVABLES | GROSS FINANCING RECEIVABLES - DEFERRED INCOME - PROVISIONS (FRLR) |
| 3 . TOTAL EQUITY | EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT CO.+ MINORITY INTEREST |
| 4 . TANGIBLE NET-WORTH | TOTAL EQUITY - GOODWILL - OTHER INTANGIBLE ASSETS |
| 5 . TOTAL DEBT | SHORT-TERM DEBT + LONG-TERM DEBT |
| 6 . NET PROFIT | NET PROFIT |
| 7 . ASSETS UNDER MANAGEMENT | ASSETS UNDER MANAGEMENT |
| **B . ASSET QUALITY (%)** | |
| 8 . TOTAL ASSETS GROWTH RATE | CURRENT YEAR TOTAL ASSETS – PREVIOUS YEAR TOTAL ASSETS x 100<br>PREVIOUS YEAR TOTAL ASSETS |
| 9 . FR-LOSS RESERVE / FINANCING RECEIVABLES | FINANCING RECEIVABLES LOSS RESERVE x 100<br>FINANCING RECEIVABLES |
| 10 . NON-PERFORMING FR / FINANCING RECEIVABLES | NON PERFORMING FINANCING RECEIVABLES x 100<br>FINANCING RECEIVABLES |
| 11 . FR-LOSS RESERVE / NON-PERFORMING FR | FINANCING RECEIVABLES LOSS RESERVE x 100<br>NON PERFORMING FINANCING RECEIVABLES |
| 12 . UNPROVIDED NON-PERFORMING FR / TOTAL EQUITY | NON PERFORMING FR - FR LOSS RESERVE x 100<br>TOTAL EQUITY |
| 13 . FR-LOSS PROVISION CHARGE / FINANCING RECEIVABLES | FINANCING RECEIVABLES PROVISION CHARGE x 100<br>FINANCING RECEIVABLES |
| **C . CAPITAL AND LEVERAGE** | |
| 14 . TOTAL EQUITY GROWTH RATE (%) | CURRENT YEAR TOTAL EQUITY – PREVIOUS YEAR TOTAL EQUITY x 100<br>PREVIOUS YEAR TOTAL EQUITY |
| 15 . TOTAL EQUITY / TOTAL ASSETS (%) | TOTAL EQUITY x 100<br>TOTAL ASSETS |
| 16 . LEVERAGE (TIMES) | TOTAL LIABILITIES<br>TOTAL EQUITY |
| 17 LEVERAGE - EXCLUDING MINORITY INTEREST (TIMES) | TOTAL LIABILITIES<br>TOTAL EQUITY - MINORITY INTERESTS |
| 18 . TOTAL LIABILITIES / TANGIBLE NET-WORTH (TIMES) | TOTAL LIABILITIES<br>TOTAL EQUITY - GOODWILL - OTHER INTANGIBLE ASSETS |
| 19 . LONG-TERM DEBT / TOTAL EQUITY (TIMES) | LONG-TERM DEBT<br>TOTAL EQUITY |
| 20 . TOTAL DEBT / TOTAL EQUITY (TIMES) | SHORT-TERM DEBT + LONG-TERM DEBT<br>TOTAL EQUITY |
| **D . LIQUIDITY AND COVERAGE** | |
| 21 CURRENT RATIO (TIMES) | CURRENT ASSETS<br>CURRENT LIABILITIES |
| 22 . CASH + QI + ST GROSS FR / ST DEBT (TIMES) | CASH + QUOTED INVESTMENTS + ST GROSS FINANCINFG RECEIVABLES<br>SHORT-TERM DEBT |
| 23 . CASH & QUOTED INVESTMENTS / TOTAL ASSETS (%) | CASH + QUOTED INVESTMENTS x 100<br>TOTAL ASSETS |
| 24 CASH & QUOTED INVESTMENTS / TOTAL LIABILITIES (%) | CASH + QUOTED INVESTMENTS x 100<br>TOTAL LIABILITIES |
| 25 . NET FINANCING RECEIVABLES / TOTAL ASSETS (%) | NET FINANCING RECEIVABLES x 100<br>TOTAL ASSETS |
| 26 . NET FINANCING RECEIVABLES / TOTAL LIABILITIES (%) | NET FINANCING RECEIVABLES x 100<br>TOTAL LIABILITIES |

| E . PROFITABILITY (%) | |
|---|---|
| 27 . RETURN ON AVERAGE ASSETS (ROAA) | NET PROFIT x 100 / AVERAGE TOTAL ASSETS |
| 28 . RETURN ON AVERAGE EQUITY (ROAE) | NET PROFIT x 100 / AVERAGE TOTAL EQUITY |
| 29 . FUNDING COST | FINANCING EXPENSE x 100 / AVERAGE TOTAL DEBT |
| 30 . FINANCING INCOME ON AVERAGE EARNING ASSETS | FINANCING INCOME x 100 / AVG. (CASH & BANKS + NET FINANCING RECEIVABLES + BONDS) |
| 31 . FINANCING DIFFERENTIAL | FINANCING INCOME ON AVERAGE EARNING ASSETS - FUNDING COST |
| 32 . NON-FINANCING INCOME / GROSS INCOME | NON FINANCING INCOME x 100 / GROSS INCOME |
| 33 . OPERATING EXPENSES / GROSS INCOME | OPERATING EXPENSES x 100 / GROSS INCOME |
| 34 . OPERATING PROFIT GROWTH RATE | CURRENT YEAR OPERATING PROFIT – PREVIOUS YEAR OPERATING PROFIT x 100 / PREVIOUS YEAR OPERATING PROFIT |
| 35 . OPERATING PROFIT / AVERAGE ASSETS | OPERATING PROFIT x 100 / AVERAGE TOTAL ASSETS |
| 36 . RISK PROVISIONING CHARGE / OPERATING PROFITS | PROVISION CHARGE FOR DOUBTFUL FR + OTHER PROVISION CHARGES x 100 / OPERATING PROFITS |
| 37 . REALIZED INCOME / GROSS INCOME | REALIZED INCOME x 100 / TOTAL INCOME |
| 38 . DIVIDEND PAYOUT RATIO | CASH DIVIDENDS x 100 / NET PROFIT |
| **F . INVESTMENT** | |
| 39 . MARKET CAPITALIZATION | WEIGHTED AVG. NUM. OF SHARES OUTSTANDING X END OF PERIOD SHARE PRICE |
| 40 . SHARE PRICE | END OF PERIOD SHARE PRICE |
| 41 . EARNINGS PER SHARE | NET PROFIT / WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING |
| 42 . EARNINGS PER SHARE GROWTH (%) | (CURRENT Y. EARNINGS PER SHARE – PREVIOUS Y. EARNINGS PER SHARE) x 100 / PREVIOUS Y. EARNINGS PER SHARE |
| 43 . PRICE / EARNINGS RATIO (TIMES) | END OF PERIOD SHARE PRICE / EARNINGS PER SHARE |
| 44 . PRICE / BOOK RATIO (TIMES) | END OF PERIOD SHARE PRICE / (TOTAL EQUITY / WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING) |
| 45 . CASH DIVIDEND PER SHARE | CASH DIVIDEND PAID PER SHARE |
| 46 . STOCK DIVIDEND PER SHARE (%) | STOCK DIVIDEND PAID PER SHARE AS A PERCENTAGE OF SHARE PAR VALUE |

Ref: MR2.2-INV-2.13

CAPITAL intelligence

# 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.