CAPITAL intelligence

CORPORATE RATING

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

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Corporate Rating Report

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

Kuwait

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

Kuwait, December 2014

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	**BB-**	B+	Dec 14
Short-Term	**B**	-	-
Outlook	**Stable**	Positive	Dec 14

FINANCIAL HIGHLIGHTS

USD (mn) KWD (mn)	Q3 2014 USD	Q3 2014 KWD	2013 KWD	2012 KWD
Net Financing Income	9.6	2.8	4.1	2.9
Non-Financing Income	1.1	0.3	0.5	0.6
Operating Expenses	4.6	1.3	1.6	1.5
Net Profit / Loss	6.0	1.7	1.8	1.2
Total Assets	158.1	45.6	52.0	54.4
Net Financing Rec.	112.0	32.3	40.0	39.2
Total Debt	30.9	8.9	13.0	19.5
Total Equity	121.9	35.2	33.4	31.6
Exchange Rate: USD/KWD		*0.289*	*0.282*	*0.281*
NPFR / Financing Receivables		11.64	12.60	38.86
FR-Loss Reserve / NPFR		80.09	52.96	55.72
Total Equity / Total Assets		77.11	64.26	58.04
Leverage		0.30	0.56	0.72
ROAA (%) *Annualised*		4.74	3.45	2.33
ROAE (%) *Annualised*		6.75	5.65	3.86

RATINGS DRIVERS

Supporting the Rating

- Significant improvement in the quality of the financing receivables book with the substantial lowering of non-performing financing receivables (NPFRs) and a significant rise in loss coverage.
- Debt service comfortably supported by receivables cashflow.
- Sustained net profitability, notwithstanding the decline of revenue in first nine months of 2014.

Constraining the Rating

- Very small balance sheet and modest market share in the Kuwait consumer financing sector.
- Very limited diversity in funding sources and a higher level of encumbered assets.
- Narrow range of revenue streams – nearly all income comes from the financing portfolio.

RATING RATIONALE

Capital Intelligence (CI) upgrades Al Manar Financing and Leasing Company K.S.C.'s (Al Manar) Corporate Long-Term Rating to 'BB-' from 'B+', while maintaining the Short-Term Rating at 'B' in acknowledgement of the Company's significantly improved asset quality. The substantial lowering of NPFRs has brought this ratio to only slightly above that of its largest competitor, while its loss coverage ratio has risen to one of the highest among its peers. The upgrade also reflects the good debt serviceability which remains supported by the collection of receivable instalments and the rating also takes into account sustained net profitability, notwithstanding the decline in revenue in the first nine months of 2014. The Company's ratings however remained constrained by its very small balance sheet and modest market share, its narrow range of earning streams and the limited funding sources. With the upgrade, the Outlook for the ratings reverts to 'Stable'.

The consumer finance market in Kuwait remains challenging with increased competition from banks and limited access to funding given the reluctance of banks to lend to finance companies. In the periods funding was available, Al Manar had performed well as evidenced by ability to generate strong growth in financing receivables book. However, with the drying up of funding availability, financing receivable slowed and ultimately contracted at end Q3 2014. With the general reluctance of banks to lend to finance companies, Al Manar's funding sources are thus very limited and this remains a constraint to the Company's rating. Debt serviceability and liquidity on the other hand remained good and supported by the robust and improving level of receivable instalments collection. The most noteworthy development in the period under review and the major support to the upgrade of the Company's corporate ratings was the significant improvement in the quality of its financing receivables book. With the writing off of a large amount of NPFRs, the Company's NPFR ratio has fallen substantially and now stands at only slightly above that of its largest competitor. At the same time, it has raised its loss coverage to one of the highest among its peers at end Q3 2014.

On the earnings side, its return to net profitability since 2012 is a supporting factor to the Company's ratings. However, its modest market share and narrow business lines remain a constraint. With the sharp contraction of the financing receivable book at end Q3 2014, financing income fell and with limited contribution from other revenue sources, the Company's net profit growth for the first nine months was largely the result of a provision write back.

An important recent development is a new facility obtained from an existing major lender which allows the Company to resume its financing activities. However, a somewhat negative aspect of this new facility is the high level of collateral required. This, in turn, could limit the Company's ability to raise additional funding going forward if the collateral level became the new norm for all borrowings.

OUTLOOK

With net profit at end Q3 2014 almost reaching the level of end 2013, a reasonable performance for full year is assured, although as stated earlier this has been largely on the back of a provision write back. Going forward, with the new facility in place, the Company has projected good growth of its financing receivable book. The business plan provided by management for the next four years is largely based on this single facility and the assumption that this will be renewed when it expires in three years time. The improved quality of its financing receivable book on the other hand is likely to be maintained. Liquidity and debt serviceability will also remain supported by the collection of receivable instalments as cash balances are projected to remain fairly modest and the Company does not plan to hold quoted investments. The Company's other investments are expected to remain unchanged. Revenue streams will thus remain confined to its financing activities. With the increased competition, maintaining market share − and in particular margins − may be a challenge.

COMPANY HISTORY AND STRATEGIES

History

Al Manar's Major Shareholders at end Q3 2014	%
Investment House (Clients A/C-Qatari Client: QIPCO Holding)	15.91
Wafra International Investment Co (Clients account: PIFSS)	14.61
Financial Assets	13.74
Global Investment House Co (Clients account)	9.49
Other*	59.99
Total	**100.00**

***all other shareholder owns less than 5%*

Al Manar Financing and Leasing Company K.S.C. (Closed) 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 conducts its financial services activities in accordance with Islamic Shari'a principles and is regulated and supervised by the Central Bank of Kuwait (CBK). As at end Q3 2014, the Company employed 64 staff members, down by one from 65 at end 2012 and a high of 83 at end 2008.

Business Model

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

1) Consumer Financing

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

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

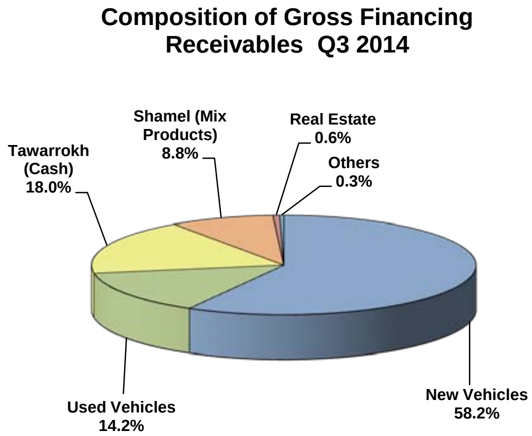
2) Fleet Financing

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

3) Real Estate Financing

Real estate facilities are (unlike vehicle purchase or cash loans) offered to Kuwaitis only, either individuals or local companies. All real estate financings require a first mortgage on the property, or (more normally) Ijara contract structure. For income producing investment property, the maximum loan to value level is 65%. Raw land is not financed. The maximum tenor for real estate financing is fifteen years.

Composition of receivables book has shifted over time. The last two years have seen a marked increase in the proportion of what is described as Tawarrokh financing (within a much reduced portfolio). However, more recently, particularly in 2012 and 2013, there was a further shift to new vehicles financing. As shown in the adjoining pie chart, the latter at end Q3 2014 accounted for more than half of the financing receivable book compared to just a third (33.8%) at end 2011. It should be noted that the Tawarrokh portfolio is made up of several different types of lending (largely refinance of previous facilities including balloon financing*, although this is no longer allowed under current regulations).



As advised by management, at end 2013, Al Manar had the second highest market share at 12.3% although CFC remained the market leader at a substantial 68.0% share of the consumer financing market.

**Balloon financing refers to the earlier market practice of structuring loans (particularly for the purchase of cars) so that at the end of the financing period there was a single larger balloon payment – usually refinanced by the lender – in order to allow monthly payments to be lower.*

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. In addition to the Tawarrokh facilities, there are three different Islamic financing structures in use. 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.

INVESTMENTS

At end Q3 2014, as in previous years, Al Manar's investments include a portfolio of financial investments − Fair Value Through Income Statement (FVTPL) and Available For Sale (AFS) investments which comprised largely unquoted investments, a book of Islamic instruments and a small portfolio of investment properties. The latter, consisted of four fairly small buildings which were rented out. Contributions to revenue were however modest. Net contributions from the financial investments portfolio had also largely been negative up to end 2012, reflecting the then prevailing relatively weak stock market and the impact of the slower economy on companies in Kuwait. For 2013, the net contribution from this portfolio was small positive (KWD40k), but turned negative once again in the first nine months of 2014 (KWD101).

FUNDING

Al Manar operates under an Investment Company licence; therefore, it cannot accept deposits. Consequently, funding must come from capital or from borrowings. As the Company operates on a Sharia'a compliant basis, all borrowings are via Islamic structures on an effectively secured basis, usually with assignment of financing receivables. However, some of the newer facilities were secured against cash balances. Please see *Funding and Liquidity* in the Financial Analysis section (p.12) for further details.

PRINCIPAL BUSINESS STRATEGIES

Since the onset of the regional recession in 2008 and until relatively recently, the main challenges for Al Manar have been:

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

Al Manar has achieved a fair measure of success in all the above areas as follows:

- As regards asset quality, NPFRs have ceased to climb, slowly declining over the past few years and improved substantially in the first nine months of 2013, with the large write off of unsecured NPFRs in the past due over 365 days category.
- Operating expenses are well under control.
- The main relationship bank (Kuwait Finance House) increased Al Manar's funding line in May 2011, and this has allowed Al Manar to seek to build lending volumes.

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 geographic expansion have been effectively shelved for at least the medium-term; the Bank may also divest the remaining (14.8%) stake in Qatar Finance House.

DEVELOPMENTS IN THE CONSUMER CREDIT MARKET

As in many of the GCC countries, problems were caused by the pile-up of a large volume of consumer debt by Kuwaiti citizens. With financing that had historically been readily available, and an apparent concentration by borrowers 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 initially addressed this problem in two ways. The first was to limit both the amount of debt that an individual can take on, and the maximum proportion of his monthly salary that can go in debt service. The second was to arrange relief 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% and later lowered to 40% (and to 30% of income for pensioners). The maximum loan tenure for non-housing loans is now set at 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 adjustment was a requirement that interest is calculated 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 altered before five years have passed. This essentially makes consumer lending (now termed “Personal Medium-Term Loans”) fixed rate. Previously, lenders could (and normally would) change rates when the Discount Rate changed. This obviously poses dangers for lenders during periods when interest rates are at historic lows, as any later rises in system rates will compress margins.

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

Between the regulatory changes and the effects of the economic downturn, the result was a fall in overall consumer/personal lending volumes in the market as a whole. These fell by 14% over the 2007-10 period, but began to then recover, rising by 8.7% in 2011, and then by a further 2.4% and 6.3% in 2012 and 2013, respectively.

KWD500mn Rescue Fund. This Fund from the government was established in 2008 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 Parliament for action on this issue, and even after the establishment of the Fund, similar pressures have persisted 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, especially in the early years, as it helped to reduce the volume of legal cases and prompted the repayment of non-performing outstandings. Management advised that, in Al Manar’s case, none of its customers had registered in that fund.

New 2013 debt relief scheme. The new family fund scheme was announced and approved by the Kuwaiti parliament in April 2013. This new scheme is intended to benefit Kuwaiti citizens who:

- availed loan facilities before March 2008, but
- were not beneficiaries of any earlier debt relief schemes.

Under the scheme, the outstanding principal and accrued interest as of 12th June 2013 will be settled by the government on behalf of the *approved*[1] clients from the fund. This would include non-performing outstandings.

Management advised that they used to have six customers who had registered in this scheme, but they have since repaid all their debts with the Company.

Moral Hazard – and the potential effect on non-performing loans (NPLs). The main pressure for consumer debt relief has come from some sections of Parliament. While the intentions may have been positive, there were (and continue to be) some very obvious moral hazard risks, and there was in the past 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. While there is so far no talk of new debt relief initiatives, it would not be surprising to see some MPs return to the subject in the future.

Threat from the Banks. Kuwait was unusual in that at one time a reasonably large proportion of consumer lending was provided by non-banks with investment company status, while in other GCC countries, the banks were always much more active in this area. Following the crisis (and in some cases even before), there had been a shake-out, and a number of providers either exited the business, or cut back their volumes considerably, in some cases due to pressure on funding. Given their lower funding costs, increased competition from the banks will always remain a threat to the business model of the remaining non-bank lenders.

ECONOMIC OUTLOOK − KUWAIT

For Kuwait, an outlook for the economy must always separate macroeconomic and microeconomic prospects, as the linkage between the two is not as close as would usually 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, salaries and services, such as the health and educational systems.

Oil prices. From the macroeconomic viewpoint, the Kuwaiti economy continues to do well – something that has been the case for a number of years. Governmental revenues have been strong on the back of higher oil prices, as volumes are constrained by adherence to the country's OPEC production quota.

	Brent USD		KEC USD	Budget Breakeven USD
		2009-10	68.60	28.00
2010	80.00	**2010-11**	82.50	46.00
2011	110.91	**2011-12**	109.70	44.00
2012	111.67	**2012-13**	106.60	49.00
2013	111.00	**2013-14**	103.20	53.00

The last four years were very good for oil producers in general – at least in price and therefore, income terms (with the 2012-13 exception of Iran due to sanctions). The table above shows the average price for Brent crude, the average price at which Kuwait Export Crude (KEC) sold since the 2009-10 financial year, together with the estimated price for oil which Kuwait must obtain to balance the governmental budget. It is clear that with oil prices at current levels, Kuwait will continue to post substantial budget surpluses. However, the table also underlines two other factors that need to be noted. The first (which is positive) is that the historical difference between KEC and Brent has compressed. Given limits on output under the OPEC quota, this has been positive for revenues. However, should this gap widen, it would be a negative, especially if this was linked with a fall in Brent prices. The second factor is negative and relates to the sharp rise in the 'budget breakeven' KEC price. Government spending has been rising – with most of the increases going on entitlements and other transfers rather than into infrastructure. This makes Kuwait more vulnerable to any prolonged period of weakness in oil prices, although it should also be pointed out that nearly every other oil producer has a higher 'pain point' than Kuwait.

[1] *Eligible borrowers must apply to be able to benefit from the scheme – enrollment is not automatic.*

Oil Price Outlook. The IEA's latest estimate for demand growth in 2014 is 1.2mbpd or 1.4% (and for 2015 – 1.5%). Much of this increased demand is expected to show through in the final quarter of the year. While this growth forecast is not a historically strong number, it is higher than that for 2013 – a figure of 1.0%. On the supply side, OPEC output has been rising recently after dropping to a 12-month low in February. This reflects output increases in Iraq, the KSA and the UAE, although these rises were partially offset by declines earlier in the year in Kuwait, Libya and Nigeria. Total OPEC output (including Iraq) was almost 30.6mbpd in June. Non-OPEC supplies are expected to increase by 1.4mbpd in 2014 – mainly from Canada and the USA – and by 1.2mbpd in 2015. A major source of uncertainty remains demand from China and (to a lesser extent) India. The IEA has noted some slackening in import demand from China given the apparently slowing economy, while the election of a BJP-led government in India should foster faster economic growth and therefore rising oil demand. The role of these two countries is crucial as they are the largest (10.7mbd) and third largest (3.7mbd) consumers in Asia – representing 12.1% and 4.2% of global consumption, respectively.

Current account remains in surplus in 2013 – net outflow on capital account reduces. Although the current account surplus declined by 7.9% in 2013, at KWD20.3 billion, it remained very substantial in money terms. Oil exports were down by 2.7% in money terms to KWD30.9 billion, while goods imports rose by 9.4% to KWD635mn. The net outflow on the capital account reduced by 8.7% to KWD20.4 billion. The latter included net outward direct investment of KWD1.8 billion (KWD2.3 billion gross) and outward portfolio investment of KWD8.7 billion.

Budget FY2011-12 and FY2012-13. Kuwait's budgetary year runs from April to March so the high oil prices during calendar 2013 had a major impact on the 2013-14 financial year revenues. In FY2011-12, the budget showed a surplus (after the transfer to RFFG[2]) of KWD10.2 billion (up from KWD3.13 billion in the previous financial year) on oil revenues of KWD28.57 billion. Actual government expenditure was KWD17.0 billion, barely up on the KWD16.2 billion in the previous fiscal year. The 2011-12 transfer to the RFFG was KWD3.02 billion.

For FY2012-13, the official budget was based on oil revenues of KWD12.77 billion; this latter figure was itself based on an assumed average KEC price of USD65. In the event, the budget surplus before payments to the RFFG was KWD12.7mn. As the level of annual payments to the RFFG had been raised, the after-RFFG surplus was a rather lower KWD4.7 billion. Total expenditure was KWD19.3 billion, against a budgeted expenditure level of KWD21.2 billion.

Budget 2013-14. For FY2013-14, the official budget was based on a KED price of USD70. Oil revenues (at this price) were budgeted at KWD16.9 billion and with budgeted non-oil revenues of KWD1.2 billion, the revenue side is brought to a total of KWD18.1 billion. Budgeted expenditure was KWD21.0 billion. Although the budgetary year has already passed, final numbers are not yet in. It is however certain that oil revenues will be much higher than budgeted. Assuming a KEC price of around USD103 per barrel, oil revenues are likely to be in the region of KWD29 billion. Adding in non-oil revenues of another KWD2.0 billion (actual 2012-13: KWD2.0 billion), this would bring total revenues to around KWD31 billion. Even assuming full expenditure of KWD21 billion (and an underspend is normal), this would still leave a surplus before RFFG of around KWD10 billion.

Budget 2014-15. For FY2014-15, the official budget was based on a KED price of USD75. Oil revenues (at this price) were budgeted at KWD18.8 billion and with budgeted non-oil revenues of KWD1.3 billion, the revenue side is brought to a total of KWD20.1 billion. Budgeted expenditure was KWD21.9 billion. As is usually the case, the oil price used in preparing the budget was (and has remained) well below market prices for KEC.

Politics Matter. 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 or projects involving foreign oil companies in actual production drawing the ire of MPs in the past. Given the results of the most recent elections (the third set in 12 months and the sixth since 2006), there is now perhaps more reason for optimism that matters will change – perhaps significantly for the better. However, the Opposition has not gone away and whether in parliament or outside, the arguments will continue.

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[2] *RFFG = Reserve Fund for Future Generations.*

Longer Term Concerns

- **Narrow economic base.** Kuwait remains heavily dependent on the oil sector, which directly accounts for around 50% of nominal GDP, 90% of budget revenues, and 90% of exports.
- **The government budget is structurally weak.** This reflects a very narrow non-oil revenue base and significant expenditure rigidities, with the bulk of total spending geared to the payment of wages, social benefits and subsidies.
- **Small private sector.** The private sector of the economy is small, dependent on government spending, and employs relatively few nationals.
- **Infrastructure deficit.** Physical and social infrastructure is poor compared to countries with a similar level of per capita income.
- **Low level of Foreign Direct Investment (FDI).** The business environment is somewhat challenging – as with other GCC countries, corporate governance practices are seen as being below international best practice. Kuwait also attracts relatively little FDI. These are perceived weaknesses that the government hopes to tackle with the implementation of new corporate regulations published in November 2012.

The structure of the Kuwaiti economy is not sufficiently flexible to cope with mounting demographic pressures, which, if not addressed over the coming years, could potentially result in serious labour market strains and the erosion of real income per capita in the medium to long-term. The capacity for the capital-intensive energy sector and state institutions to provide meaningful jobs for the fast growing indigenous population is approaching its limits, and a stronger reform effort is needed to promote faster and more self-sustaining private sector growth.

RISK FACTORS

Credit risks:

Al Manar's NPFRs in money terms had peaked in 2009 and began to gradually fall from 2010 onwards. In Q3 2013, the Company also wrote off a substantial amount of unsecured NPFRs which were overdue over 365 days. Thus, the Company's NPFR ratio fell substantially from 38.9% at end 2012 to 12.6% at end Q3 2014. While remaining moderately high, the Company's NPFR ratio compared favourably with its peers and was only slightly above that of its largest competitor. Loss coverage has also risen to among the highest amongst its peers.

Borrowing / funding risks:

As Al Manar cannot have a core customer deposit base, funding is reliant upon bank facilities and other wholesale funding sources, and in this regard, there still remains a general reluctance of banks to lend to the finance companies. However, the ability of the Company to secure a new funding line in October 2014 from its main lender is a positive factor. The Company continues to borrow largely on a secured basis and the much higher level of collateral provided for the new facility is somewhat a negative point as it is likely to limit the Company's ability to rise any further additional lines in view of the much lower proportion of unencumbered assets in its asset base.

Competitive risks:

While the number of active Sharia'a compliant consumer finance lenders has reduced, there is now an increased interest in this segment by both Islamic and conventional banks. Both have an advantage in availability and cost of funding. At the same time, growth in the overall market remained constrained by regulations. Increased market share by banks would thus amount to an even more challenging operating environment for non-bank lenders. Al Manar would need to draw on experience and expertise to provide a competitive edge in terms of service, approval time, etc.

Profitability Risks:

The financing receivables business has always remained profitable for the Company, although margins have declined substantially over the past few years. However, it has been the negative impact of its investment portfolio that has either constrained profit, or caused the losses reported over the years. A large part of the losses in previous years were related to the impairment losses of its securities investment portfolio (largely unquoted) which was largely due to the Company's conservative approach to the valuation and booking of these investments. With the improving stock market, impact has been fairly positive thus far. The Company also remains focused on running an efficient operation and operating expenses are expected to remain well under control.

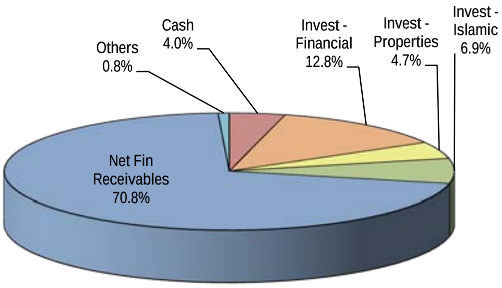
FINANCIAL ANALYSIS

The 2013 consolidated financial statements of Al Manar and its subsidiaries were prepared by management in accordance with International Financial Reporting Standards and audited to International Accounting Standards by the Kuwaiti practice of Al-Fahad & Co. Deloitte & Touche and by Al Humaidi & Partners (an independent member of Baker Tilly International). The 2013 accounts are unqualified. The following analysis also uses the nine months ending September 2014 financials which are unaudited, but reviewed.

BALANCE SHEET

Modest growth in 2013, but contracted sharply in Q3 2014 reversing the short trend of growth. Following the healthy 13.0% growth a year earlier, the Company's asset growth slowed down substantially in 2013 to 4.4%. This trend largely mirrored the growth pattern of the Company's financing receivable book which in turn was constrained by the availability of wholesale funding, especially in 2013.

Asset Composition − Q3 2014

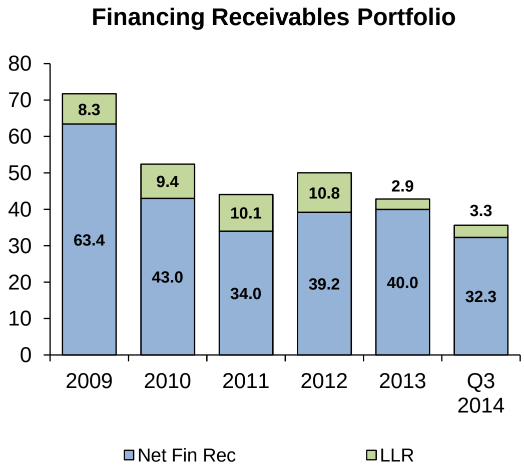


Consequently, the net financing book grew by a sedate 2.0% after expanding by a solid 15.3% a year earlier. At KWD40.0mn, it represented 76.9% of total assets at end 2013 up from 72.0% at end 2012. On the other hand, the Company's investment portfolio stood at a fairly stable KWD11.1mn (2012: KWD11.5mn), although accounted for a slightly lower − but still sizeable − 21.3% of total assets. Together with the loan book, these assets formed the bulk (98.2%) of the Company's asset base at end 2013. The small remainder (1.8%) comprised largely cash balances (1.0%), other receivables and prepayments (0.7%) and other assets (which include fixed assets – 0.1%).

The asset composition at end Q3 2014 is shown in the pie-chart above. Due to a lack of funding, the net financing receivable book contracted by 19.2% to KWD32.3mn, which consequently represented a much lower 70.8% of total assets. With the investment portfolio also remaining stable at KWD11.2mn, the Company registered an overall 12.3% contraction of its asset base. Cash balances formed a higher 4.0% at end Q3 2014, while the remainder comprised other receivables and prepayments and other assets.

In line with Al Manar's lending policy (mainly to Kuwaiti individual and corporate customers and other individual expatriates residing in Kuwait), the Company's assets remained predominately in Kuwait at end Q3 2014.

Resumption of financing activities was short lived, reflecting the still challenging consumer financing market and the limited funding availability. Since 2009, there had been a continuing decline at both the gross and net levels, but finally in 2012 with a new facility from KFH, the financing receivables book grew by a solid 15.3% to reach KWD39.2mn.



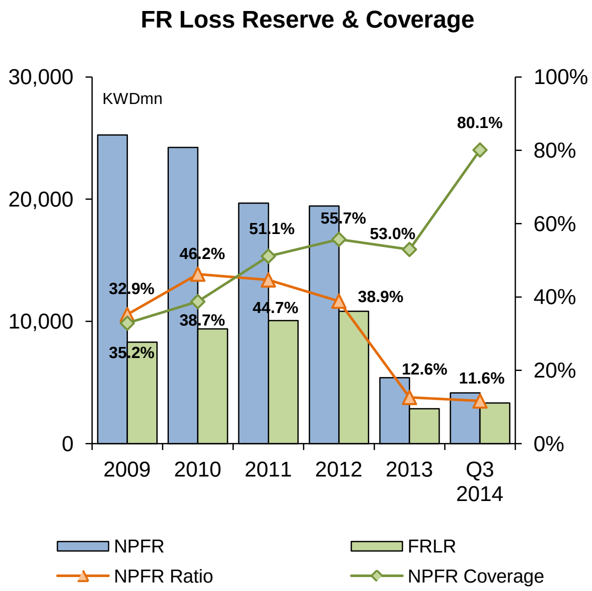
However, with funding sources remaining limited, the financing receivable book growth once again slowed in 2013 and contracted at end Q3 2014. That said, the modest growth in 2013 compared favourably against most of its peers which showed a fairly sizeable decline of their financing receivable book. Management has since advised that the Company has successfully secured a new revolving credit facility of KWD15mn with KFH in October 2014 which would support financing receivable growth going forward, notwithstanding the still challenging consumer financing market. As for maturity profile, short-term financing receivables formed a fairly stable 42.8% at end Q3 2014 (2013: 42.0%).

Please see earlier section on Business Model (p.3) for the composition of the financing receivable book.

Aging of NPFRs KWDmn	2011	2012	2013	Q3 2014
91-180 Days	1.14	1.92	0.79	1.29
181-360 Days	2.70	0.93	1.60	0.77
360 + Days	15.85	16.59	3.01	2.09
Total	**19.69**	**19.44**	**5.40**	**4.15**

Substantail improvement of the quality of the financing receivable book; continued lowering of NPFR ratio and a much higher NPFR loss coverage ratio at end Q3 2014. NPFRs have fallen steadily from a high KWD25.3mn in 2009 to KWD19.7mn at end 2011. But, with a faster contraction of the financing receivable book, Al Manar's NPFR ratio climbed from 35.2% in 2009 to a high 46.2% in 2010, only improving slightly in 2011 to 44.7%. In 2012, there was a marginal decline of NPFRs to KWD19.4mn, but with the good growth of the financing receivable book, the Company's NPFR ratio showed a good improvement to 38.9%, although remaining high.

In 2013, the Company wrote off a significant KLWD11.4mn NPFRs against the deferred income KWD2.3mn and provision of KWD9.1mn. The NPFRs written off were largely in the overdue more than one year category and were largely unsecured. As shown in the above aging table, the NPFRs overdue by more than one year fell from a high KWD16.6mn to KWD3.0mn at end 2013 and further to KWD2.1mn at end Q3 2014. This led to a significant 72.2% fall of total NPFRs to KWD5.4mn at end 2013 and a further 23.2% decline at end Q3 2014. Together with the modest growth of the financing receivable book, the Company's NPFR ratio improved substantially to 12.6% at end 2013 and further to 9.3% at end Q3 2014, notwithstanding the contraction of the financing receivable book. This ratio compared favourably with some of its peers, although remained slightly higher than that of CFC (H1 2014: 8.8%).



Much improved NPFR loss reserve coverage at end Q3 2014. Following the sharp rise in NPFRs in 2008, the coverage level declined, but gradually rose thereafter up to 2012, as shown in the FR Loss Reserve Coverage Chart (p.10). Despite lower NPFRs, the Company modestly increased FRLR (Financing Receivable Loss Reserve) in both 2011 (7.1%) and 2012 (7.7%). The coverage ratio of 55.7% at end 2012 was considered just adequate.

In 2013, with the substantial write off of NPFRs in the over one year category which carries 100% provisioning, the loss reserve fell substantially from KWD10.8mn to KWD2.9mn (largely specific provisions). But with the substantial decline of NPFRs, the loss coverage ratio fell only slightly to 53.0% at end 2013. However, at end Q3 2014, the Company raised FRLR by 16.2% and together with a further fall of NPFRs, loss coverage improved to a good 80.1%. This compared favourably to its peers including that of CFC.

Collateral Type KWDmn	2012	%	2013	%	Q3 2014	%
Shares	0.7	5.8	0.7	13.0	2.3	19.8
Real Estate	11.0	92.8	4.4	84.3	9.1	78.5
L/G	0.3	1.4	0.1	2.7	0.2	1.7
Total	**12.0**	**100.0**	**5.3**	**100.0**	**11.6**	**100.0**

Collateral held remained largely in the form of real estate assets. As shown in the adjoining table, the Company held collateral with an aggregate value of KWD11.6mn, which remained largely in the form of real estate assets against its NPFRs book. While the coverage would rise to above 100% if this collateral were included, CI remains of the opinion that FRLR in any consumer finance business should be much higher to reflect the effective collectable value of security and the intrinsic risk of this type of lending. It is worth mentioning here that vehicles financed are registered under the Company's name, but this is not recognised by the CBK as acceptable collateral. Management advises that the track record of NPFRs collection in the vehicle financing category remains satisfactory, as borrowers can always liquidate the vehicle with the permission from the Company to pay any past due instalments. Based on the annualised operating profit at end Q3 2014, it would take the Company just approximately 2.4 months to reach full coverage.

High level of past due but not impaired financing receivables. The Company's PDNI financing receivables were all under 90 days and these stood at a relatively stable KWD12.1mn (2012: KWD12.8mn), but nonetheless represented a very high 30.3% of the net financing receivable book at end 2013.

Investments Type KWDmn	2011	2012	2013	Q3 2014
Securities (FVIS & AFS)	6.9	6.7	5.8	5.8
Islamic Instruments	1.5	3.1	3.1	3.2
Properties	2.0	2.1	2.1	2.1
Associates	-	-	-	-
Total	**10.4**	**11.9**	**11.0**	**11.1**

A fairly modest investments book in money terms. The components of the Company's investment portfolio are illustrated in the adjoining table. This portfolio declined marginally by 6.7% to KWD11.1mn in 2013 and remained stable at end Q3 2014.

Financial investments were largely unquoted. As shown in the adjacent table, this book has been declining − albeit modestly − for the past few years. At end 2013, the largest proportion (67.8%) of these investments was classified as financial assets at FVTPL, with the remainder under AFS. The latter, consisted largely of the Company's investment in Qatar Finance House (QFH).[3] The Company's ownership had reduced from 20.0% to 14.8% in 2012.

The bulk of the FVTPL book on the other hand was made up of six individual holdings in unquoted local shares, including a small proportion (2.5% of the FVIS book) in local funds. Both the local unquoted shares and unquoted funds carried a Level 2 fair value hierarchy (market comparative pices of identical assets) and were distributed across a number of industrial sectors. At end Q3 2014, the

[3] QFH is a company incorporated in Qatar and its principal activity is consumer financing in accordance with the Sharia'a. In line with its 'back to basics' strategy and the redeployment of available resources back to Kuwait, Al Manar is exploring options for a possible sale of its remaining 14.8% stake. QFH 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.

composition of both the AFS and FVTPL book remained similar to that at end 2013. By geography, the largest proportion of these investments remained in Kuwait (66.1%), followed by the GCC (largely Qatar) at 32.2% of total.

Small portfolio of Islamic instruments and investment properties with modest revenue contributions. As can been seen in the *Investment Type* table (p.11), there was a small increase in Islamic instruments (amount deposited at local financial institutions according to Murabaha contracts) at end Q3 2014. The portfolio of investment properties on the other hand remained stable at KWD2.1mn in the periods under review, and are held to earn rentals and/or for capital appreciation. The aggregate market value of these properties stood at KWD2.9mn, up slightly from KWD2.5mn a year earlier. Valuations are carried out at year end by independent valuers which are not related to the Company. However, as per information from management, the average monthly income for the first nine months of 2014 for these properties remained fairly modest at KWD12.6k.

Area	Size (sqm)	Number Of Floors	Monthly Income KWD	Market Value KWD
Al-Mahboola	500	Basement + Ground + 5 Floors + Outside Shop	4,069	516,000
Al-Fahaheel	747	Ground + 2 Floors	2,467	762,500
Al-Mangaf	1000	Two Buildings : Building 1 - Ground + 5 Floors Building 2 - Ground + 7 Floors+ Outside Shop	6,079	892,875

FUNDING & LIQUIDITY

Declining debt and very low leverage at end Q3 2014. As at end 2013, Murabaha and Wakala payables had fallen to KWD12.4mn from KWD19.0mn at end 2012. This was substantially lower than the high of KWD31.3mn seen at end 2009. At end Q3 2014, the Company's borrowing declined further to KWD8.3mn. In tandem with the lower debt level and continued growth of the equity base, the Company's leverage dropped to a low 0.56 times at end 2013 and further to 0.30 times at end Q3 2014. While CI normally welcomes lower leverage, this can go too far when the company in question is a finance company. Al Manar needs to rebuild its financing receivables portfolio to grow earnings.

Encumbered Assets	2013			Q3 2014		
	KWDmn	% of Total Portfolio	% of Total Assets	KWDmn	% of Total Portfolio	% of Total Assets
Securities (largely AFS)	1.5	78.9	2.9	1.5	80.0	3.3
Islamic Instruments	3.1	100.0	6.0	3.2	100.0	6.9
Financing Receivables*	11.9	29.8	22.8	9.6	29.9	21.1
Total	**16.5**	**36.7**	**31.7**	**14.3**	**38.3**	**37.3**

**net receivables (including NPFRs)*

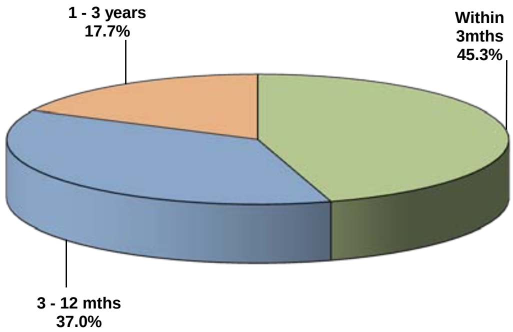
Secured borrowing and an increasing encumbered asset base. As previously stated in the *Business Model* section (p.3), the Company operates on a Sharia'a compliant basis, and thus all borrowings are via Islamic structures on an effectively secured basis with assignment of financing receivables. However, some of the newer facilities were also secured against cash, AFS and Islamic investments. With these classes of assets remaining modest, the ability to arrange further secured facilities against these types of assets is likely to be limited. Collateral pledged at end 2013 and end Q3 2014 is shown in the Collateral Type table (p.11). This collateral represented over a third of the

Company's total assets and provided a debt to asset ratio of 133.1% and 172.3% at end 2013 and Q3 2014 respectively.

However, in October 2014, management advised that the new KWD15mn revolving credit facility from KFH is against a much high level of collateral. The collateral included three out of the four investment properties worth KWD3mn, the holdings in QFH (2.5 million shares which at end Q3 2014 amounted to KWD1.9m), block deposit of KWD3mn (Murabaha deposits − Islamic instruments), as well as the 150% assignment of financing receivables (KWD22.5mn). This collateral represented a debt to asset ratio of above 200% and accounted for a high 66.7% of the Company's total assets at end Q3 2014. Including the collateral provided for the KWD2mn line from the investment company, the Company's encumbered assets ratio would rise to over 70.0% of total assets at end Q3 2014. This high level of collateral is more than likely to curtail the Company's ability to raise further funds going forward. At the same time, the only remaining assets which remained unencumbered at end Q3 2014 relate to its portfolio of unquoted securities in its FVTPL book which may not be as desired as collateral for raising funds.

High lenders' concentration and funding base was largely short-term, notwithstanding the revolving nature of facilities. The Company's funding base continued to remain very narrow with existing borrowings which were largely in the form of murabaha payables and Islamic wakala, which were provided by two Kuwaiti Islamic banks and the Public Institution for Social Security (through Ahli United Bank, Kuwait). In July 2014, the Company obtained a new KWD2mn facility from an Islamic investment company in Kuwait. As in previous years, there remained high lenders' concentration. From information provided by management, the facilities from one local bank accounted nearly half (48.0%) of total borrowings at end Q3 2014 and this was followed by the borrowings from an Islamic investment company which provided another 25.9% of the Company's funding base. The remaining (26.1%) of borrowings were from two other Kuwaiti banks and have since been repaid.

Maturity Profile of Total Liabilities 2013



As the bulk of the Company's financing receivables have an average tenor of around three years, management have sought for matching funding. To this end, most of the facilities concluded over the past few years had tenor of three years. However, at end Q3 2014, all except for the new KWD2mn from an investment company have since fallen in short-term and they all will mature in 2015. As all the facilities are on a reducing balance basis, this has resulted in the decline of borrowings in both 2013 and Q3 2014.

At end 2013, the Company had payable and other credit balances totalling KWD5.6mn, largely comprising trade payables which represented 27.0% of total liabilities. The maturity profile of the Company's total liabilities at end 2013 is shown in the above pie-chart. At end Q3 2014, these payables have fallen to a low KWD1.0mn forming 10.2% of total.

KWDmn	2013	Q3 2014
Cash	0.5	1.8
S/T FRs	20.9	20.3
Total – A	**21.4**	**21.1**
Total liabilities (TL)	17.5	9.4
Total A/TL	**122.3**	**224.5**

Debt servicing and liquidity largely supported by the scheduled instalment of financing receivables. While profitability further improved in 2013 and in Q3 2014, the Company's debt servicing remains dependent on receipt of payments from its financing receivables portfolio. At the same time, the Company's holding of liquid assets remained limited and it does not have any unutilised credit limit. Consequently, its liquidity, as in previous years, was also largely supported by the collection of instalment of financing receivables. As shown in the adjacent table, short-term financing receivables were more than sufficient to meet all the total liabilities of the Company at both end 2013 and Q3 2014. The buffer against any financing receivables turning non-performing and/or delays of receipt of payments has also improved at end Q3 2014.

Collection of account receivables contributed to the positive operating cash flow. Cash from operating activities in 2013 was a net inflow of KWD5.5mn which is a significant improvement from the KWD2.0mn net outflow a year earlier. This was contributed by a much lower financing receivable disbursement of KWD1.9mn compared to the KWD6.0mn in 2012. This was offset by a sharp increase in accounts payable of KWD2.3mn compared to KWD1.0mn a year earlier. The Company also made no additional investments in the 2013 and cash from operations was channelled to debt servicing. However, repayment totalled a much higher KWD6.6mn and contrasted with the additional funding of KWD4.2mn obtained in 2012. While financing costs were lower at KWD0.9mn compared to KWD1.2mn a year earlier, the net cash used in financing activities exceeded the cash generated from operating activities, resulting in a decrease in cash and cash equivalent to KWD0.5mn at end 2013.

However, in the first nine months of 2013, the Company generated KWD4.6mn from operating activities which largely reflected higher earnings, collection of account receivables (versus a disbursement of KWD2.8mn in the same period last year) and an increase of account payables. Cash inflow from investing activities was limited at KWD20k compared to KWD1.7mn outflow in the same period last year. Cash from financing activities on the other hand was a negative KWD5.5mn. The latter, reflects net payment of KWD4.8mn in Islamic Murabaha and Wakala payables (net increase of KWD4.5mn in the same period last year) and finance cost paid. The resultant effect was a decrease of cash balance by KWD917k to KWD1.6mn at end Q3 2013.

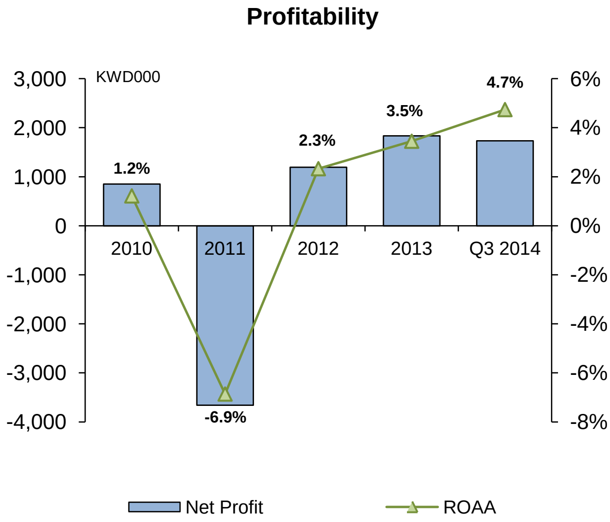
CAPITAL BASE

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. A small recovery (KWD0.9mn) was seen in 2010, but the Company suffered a further setback with the net loss of KWD3.7mn incurred in 2011. The Company however returned in 2012 and achieved a good 53.6% growth in net profit in 2013. Despite the contraction of the financing receivable book, the Company posted a healthy 13.5% growth of net profit for the first nine months of 2014. The Company's internal capital generation has been good in recent years with the full retention of net profit.

Equity **KWDmn**	**2012**	**2013**	**Q3 2014**
Capital+premium	31.2	31.2	31.2
Reserves	2.5	2.5	2.5
Retained Earnings	-2.1	-0.6	-0.6
Total	**31.6**	**33.1**	**33.1**

EARNINGS PERFORMANCE

Return to profitability maintained in 2013 and at end Q3 2014. Notwithstanding the slowdown of the Company's consumer financing acitivities in 2013, it reported a good earnings performance, largely supported by solid growth of its financing income. Reflecting its narrow business line, the Company's non-financing income remained modest. In 2013, non-financing income registered a small contraction through net losses from investment activities. Nonetheless, the strong growth of gross income was more than sufficient to meet the moderate increase in operating expenses and the higher provision charge. The Company also benefited from the sizeable reduction of financing costs in view of the lower borrowings. The translated return on average assets (ROAA) showed an improvement to 3.5% at end 2013.



For the first nine months of 2014, the Company reported a further 13.5% year-on-year (YoY) growth of net profit. However, contributions from all revenue streams fell sharply largely due to the contraction of the financing receivable book and a still weak stock market in Kuwait. Gross income thus declined by 22.6% YoY, but was compensated by a small write back of provision charge and the lower finance cost. The latter was in tandem with the continued fall of total borrowings. The annualised ROAA thus showed a further improvement to 4.7% in Q3 2014. This compared favourably with its peers, including CFC (4.6% at end H1 2014).

Gross Income KWD	2013	2012	Q3 2014	Q3 2013
Net financing inc.	4.06	2.92	3.16	3.78
Net investment inc.	(0.26)	(0.18)	0.04	0.15
Other income	0.78	0.75	0.29	0.58
Total	**4.58**	**3.49**	**3.49**	**4.51**

Solid growth of financing income in 2013, but contracted in Q3 2014, in line with the lower financing receivable book. As shown in the adjoining table, gross income improved significantly in 2013 largely on the back of 38.8% increase of net financing income. Net investment income however remained negative. A positive factor of the Company's non-financing income was the growing fee and commission income (included under 'Other' income in the table above), although remained modest in absolute money terms.

In the first nine months of 2014, gross income declined by 22.6% largely from the fall of net financing income, in tandem with the contraction of the financing receivable book. As shown in the above table, all other areas of revenue remained modest.

Strong operating profit growth in 2013, but contracted in the first nine months of 2014. Operating expense increased fairly modestly in 2013 compared to the reductions seen in the past few years. But with the strong rise in gross income, the Company was able to report an equally strong growth (48.9%) of operating profit in 2013. The Company's provision charge was higher in 2013 largely due to the impairment taken against one of its FVTPL investment of KWD0.7mn. Nonetheless, the Company reported a strong growth in gross profit of 53.6% in 2013.

However, in Q3 2014, operating expenses rose by a higher 17.1% YoY, and with the contraction of gross income, the Company registered a sharp 34.1% contraction of operating profit. But with a small provision write back instead of the large provision charge taken in the same period last year, the Company was able to reverse the negative operating profit growth to a positive growth of net profit YoY at end Q3 2014.

FINANCIAL FORECASTS 2015-2019

The Company has provided CI with a forecast for the period 2014 to 2018. This forecast is based on a number of assumptions including:

- Utilisation of the new KFH KWD15mn line.
- Investments to remain at their current value of KWD5.6mn.
- Distributing 5% dividend annually.

Highlights and a summary of the forecast is appended below:

Asset Composition KWDmn	2015	2016	2017	2018	2019
Financing Receivables	35.6	40.1	43.0	44.1	46.0
Investments	11.1	11.1	11.1	11.1	11.1
Cash	4.6	2.5	1.1	1.3	1.5
Others*	0.4	0.4	0.4	0.4	0.4
Total	**51.7**	**54.1**	**55.6**	**56.9**	**64.4**

**Fixed Assets – KWD40k*

Increased lending activities – although these have been revised down from previous forecasts, reflecting the challenging consumer finance market in Kuwait. As shown in the table to the right, the asset base is projected to grow on the back of increased lending volumes. The financing receivables portfolio is to expand by 29.2% over the forecast period. Based on the available credit line from KFH and cash flow projection, annual sales are projected to rise from KWD26.4mn in 2015 to KWD27.5mn in 2016, to KWD27.9mn in 2017 and to speed up to KWD29.0mn in 2018 and KWD34.5mn in 2019. The main focus will remain with new vehicle financing which is expected to form more than half of the financing receivable book over the forecast period.

The Company's investments comprising Islamic instruments, the trading/FVIS portfolio, investment properties, and the remaining stake in QFH are projected to remain at the current value in December 2014. Needless to say, these investments will remain subject to potential volatility.

KWDmn	2014	2015	2016	2017	2018
Wakala payables	14.0	15.1	15.0	14.7	14.9
*Total liabilities**	*15.5*	*16.9*	*17.1*	*16.9*	*17.4*
Total equity	*36.2*	*37.2*	*38.6*	*40.0*	*41.7*
Leverage	0.42	0.45	0.44	0.42	0.41

**include other creditors*

Leverage to remain low. Funding is largely based on the new KWD15mn revolving credit limit obtained from KFH in October 2014.

As shown in the adjoining table, the equity base is projected grow slowly, but steadily, and in line with earning projections and the annual dividend payout throughout the forecast period. Leverage is projected to remain low; perhaps remaining too low for a finance company. But this too is a function of the funding constraints faced by the Company.

Liquidity to remain dependent on the payments received from the financing receivable book. With modest cash and no quoted investments, the Company's liquidity, as in the previous years, will remain supported by receipt of payments from the financing receivable book.

Debt service through instalments collection. Based on the above assumptions, the forecast shows that the Company would be able to service all its current and new external financings through its internal cash flow from operation (supported largely by the collection of instalments) to settle borrowings totalling KWD51.4mn, while achieving improving net profit over the forecast period.

Improving net profit forecast. Income from the financing portfolio is projected to form closer to 80% of the total revenue of the Company. In line with projected lending volumes, financing income is projected to grow by 22.8% in 2016, 12.4% in 2017, 19.3% in 2018 and 8.7% in 2019. Associated fees and other income are projected to remain fairly modest, contributing under a quarter to gross revenue. Operating expenses to be kept under control increasing by a modest average annual rate of

4.2% over the forecast period. Additional provision for bad debt is expected to increase by 28.5% in 2015, but to be modest in the following two years before spiking up again in 2019 as the new financing book seasoned. The Company anticipates net profit to grow annually from KWD2.2mn at end 2015 (slightly down from previous projection of KWD2.4mn) to KWD3.3mn at end of the forecast period in 2019 – which translates to an improving return on average equity (ROAE), from 7.2% at end 2015 to 10.6% at end 2019.

Conclusion

The new projections provided by management show a slight downward revision of new lending activities which may be prudent in light of the still challenging environment in Kuwait, increased competition in the consumer financing market, as well as the continued constraints in availability of funding lines. While there remains a demand for consumer financing, the market has become more competitive in recent years with the entry of banks. Nonetheless, the Company has shown the ability to grow its financing receivables when able to secure funding. With the new facility in place, the above projections appear realistic.

However, it is worth noting that the KFH line is for a tenor of three years and consequently there is an inbuilt assumption that this facility will be renewed on maturity. With the clean up of its NPFR book, while the Company's financial metrics have improved, the high level of collateral pledged to the KFH facility has raised the proportion of encumbered assets which in turn will limit the scope to raise any additional secured borrowings. In this context, the Company has prudently not projected any increase of existing facilities or additional new facilities over the forecast period.

As for earnings, revenue streams will remain confined to its financing receivables business which is largely profitable. However, the Company's bottom line will continue to be impacted by the possibility of impairment charges on its unquoted investments. The profit and loss forecast does not include any contribution from the investments portfolio, while in reality there could be some impact from either disposals or revaluation/impaiment.

Appendix 1

SUPERVISION & REGULATION

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

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

a) Maximum interest rates (related to the Central Bank discount rate).

b) Maximum tenors.

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	UNAUD 09/2014	AUD 12/2013	AUD 12/2012	AUD 12/2011
A . SIZE FACTORS (USD 000)					
1 . Total Assets		158,073	184,334	193,443	167,038
2 . Net Financing Receivables		111,960	141,661	139,298	117,969
3 . Total Equity		121,887	118,459	112,271	105,410
4 . Tangible Net-Worth		121,887	118,459	112,238	105,396
5 . Total Debt		30,956	46,011	69,252	53,004
6 . Net Profit		6,015	6,506	4,249	-12,691
7 . Assets Under Management					
B . ASSET QUALITY (%)					
8 . Total Assets Growth Rate		-12.33	-4.44	13.04	-17.69
9 . FR-Loss Reserve / Financing Receivables		9.32	6.67	21.65	22.83
10 . Non-Performing FR / Financing Receivables		11.64	12.60	38.86	44.65
11 . FR-Loss Reserve / Non-Performing FR		80.09	52.96	55.72	51.13
12 . Unprovided Non-Performing FR / Total Equity		2.35	7.60	27.25	31.65
13 . FR-Loss Provision Charge / Financing Receivables		0.00	-2.55	-1.54	-1.53
C . CAPITAL AND LEVERAGE					
14 . Total Equity Growth Rate (%)		5.19	5.81	3.96	-11.05
15 . Total Equity / Total Assets (%)		77.11	64.26	58.04	63.11
16 . Leverage (Times)		0.30	0.56	0.72	0.58
17 Leverage - Excluding Minority Interest (Times)		0.30	0.56	0.72	0.58
18 . Total Liabilities / Tangible Net-Worth (Times)		0.30	0.56	0.72	0.58
19 . Long-Term Debt / Total Equity (Times)		0.00	0.00	0.00	0.00
20 . Total Debt / Total Equity (Times)		0.25	0.39	0.62	0.50
D . LIQUIDITY AND COVERAGE					
21 Current Ratio (Times)					
22 . Cash + QI + ST Gross FR / ST Debt (Times)		3.05	2.04	0.39	0.47
23 . Cash & Quoted Investments / Total Assets (%)		15.07	10.63	14.14	14.83
24 . Cash & Quoted Investments / Total Liabilities (%)		65.83	29.76	33.69	40.21
25 . Net Financing Receivables / Total Assets (%)		70.83	76.85	72.01	70.62
26 . Net Financing Receivables / Total Liabilities (%)		352.16	240.76	179.50	192.36
E . PROFITABILITY (%)					
27 . Return on Average Assets (ROAA)*		4.74	3.45	2.33	-6.86
28 . Return on Average Equity (ROAE)*		6.75	5.65	3.86	-11.34
29 . Funding Cost*		4.90	5.48	6.70	5.86
30 . Financing Income on Average Earning Assets*		11.31	12.05	10.35	10.58
31 . Financing Differential		6.40	6.56	3.64	4.73
32 . Non-Financing Income / Gross Income		10.64	11.39	16.39	346.14
33 . Operating Expenses / Gross Income		42.87	35.70	43.43	-127.22
34 . Operating Profit Growth Rate		-40.08	48.88	-166.26	-252.21
35 . Operating Profit / Average Assets*		4.82	5.53	3.86	-5.60
36 . Risk Provisioning Charge / Operating Profits		0.08	-37.03	-38.94	22.54
37 . Realized Income / Gross Income		100.00	100.00	100.00	100.00
38 . Dividend Payout Ratio					
G . REFERENCE DATA					
. Exchange Rate (Units per USD)		0.289	0.282	0.281	0.288
. Inflation Rate (%)					

* Annualised ratios for September 2014.

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	09/2014	UNAUD	AUD	AUD	AUD	Growth (%)				Breakdown (%)			
BALANCE SHEET - ASSETS (KWD 000)	**USD 000**	**09/2014**	**12/2013**	**12/2012**	**12/2011**	**09/2014**	**12/2013**	**12/2012**	**12/2011**	**09/2014**	**12/2013**	**12/2012**	**12/2011**
Cash & Banks	6,369	1,837	520	2,470	3,368	253.22	-78.94	-26.67	110.50	4.03	1.00	4.54	6.99
Net Financing Receivables	111,960	32,300	39,977	39,199	34,011	-19.20	1.99	15.25	-20.95	70.83	76.85	72.01	70.62
Other Receivables													
Prepayments & Accruals					45			-100.00	-34.39				0.09
Investments	38,564	11,126	11,103	11,981	10,432	0.21	-7.33	14.85	-17.71	24.40	21.34	22.01	21.66
Net Fixed Assets	182	53	62	44	18	-15.93	41.78	144.13	110.48	0.12	0.12	0.08	0.04
Due From Associates													
Goodwill & Other Intangible Assets				9	4		-100.00	124.32	-55.13			0.02	0.01
Other Assets	998	288	357	732	279	-19.36	-51.26	162.31	-75.04	0.63	0.69	1.35	0.58
TOTAL ASSETS	**158,073**	**45,604**	**52,019**	**54,435**	**48,157**	**-12.33**	**-4.44**	**13.04**	**-17.69**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.

External Audit	09/2014	UNAUD	AUD	AUD	AUD	Growth (%)				Breakdown (%)			
BALANCE SHEET - LIABILITIES (KWD 000)	**USD 000**	**09/2014**	**12/2013**	**12/2012**	**12/2011**	**09/2014**	**12/2013**	**12/2012**	**12/2011**	**09/2014**	**12/2013**	**12/2012**	**12/2011**
Short-Term Debt	30,956	8,931	12,984	19,487	15,281	-31.22	-33.37	27.53	-31.92	19.58	24.96	35.80	31.73
Short-Term Payables	3,680	1,062	5,134	2,878	1,962	-79.32	78.41	46.69	36.48	2.33	9.87	5.29	4.07
Prepayments & Accruals	1,550	447	471	476	524	-5.15	-1.07	-9.14	14.05	0.98	0.91	0.88	1.09
Long-Term Debt													
Long-Term Payables													
Reserve for Retirement Pay & Insurance													
Due To Unc. Subsidiaries & Associates	0	0	0	0	0								
Other Liabilities													
TOTAL LIABILITIES	**36,186**	**10,440**	**18,590**	**22,842**	**17,767**	**-43.84**	**-18.61**	**28.56**	**-27.01**	**22.89**	**35.74**	**41.96**	**36.89**
EQUITY:													
Equity Attributable To Shareholders of Parent Co.													
Share Capital	107,018	30,875	30,875	30,875	30,875					67.70	59.35	56.72	64.11
Share Premium	1,082	312	312	312	312					0.68	0.60	0.57	0.65
Less: Treasury Shares													
Statutory Reserve	4,388	1,266	1,266	1,266	1,266					2.78	2.43	2.33	2.63
Voluntary Reserve	3,358	969	1,244	1,244	1,244	-22.11				2.12	2.39	2.28	2.58
General Reserve													
Cumulative Change in Fair Value													
Gain on Sale of Treasury Shares													
Foreign Currency Translation									-100.00				
Proposed Dividend													
Retained Earnings	6,015	1,735	-275	-2,111	-3,307	-730.92	-86.97	-36.16	-1039.22	3.80	-0.53	-3.88	-6.87
SUB-TOTAL	**121,860**	**35,157**	**33,422**	**31,585**	**30,390**	**5.19**	**5.81**	**3.93**	**-11.05**	**77.09**	**64.25**	**58.02**	**63.11**
Minority Interest	27	8	8	8						0.02	0.01	0.01	
TOTAL EQUITY	**121,887**	**35,164**	**33,429**	**31,593**	**30,390**	**5.19**	**5.81**	**3.96**	**-11.05**	**77.11**	**64.26**	**58.04**	**63.11**
TOTAL LIABILITIES & EQUITY	**158,073**	**45,604**	**52,019**	**54,435**	**48,157**	**-12.33**	**-4.44**	**13.04**	**-17.69**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

PROFIT AND LOSS ACCOUNT (KWD 000) External Audit	09/2014 USD 000	UNAUD 09/2014	AUD 12/2013	AUD 12/2012	AUD 12/2011	Growth (%) 09/2014	Growth (%) 12/2013	Growth (%) 12/2012	Growth (%) 12/2011	% of Average Total Assets 09/2014	% of Average Total Assets 12/2013	% of Average Total Assets 12/2012	% of Average Total Assets 12/2011
Interest Income / Financing Income	10,969	3,164	4,950	4,090	4,340	-36.07	21.04	-5.76	-29.84	6.48	9.30	7.97	8.14
Interest Expense / Financing Expense	-1,397	-403	-890	-1,165	-1,105	-54.73	-23.59	5.45	-52.96	-0.83	-1.67	-2.27	-2.07
NET INTEREST INCOME / NET FINANCING INCOME	**9,571**	**2,761**	**4,060**	**2,924**	**3,235**	**-31.98**	**38.83**	**-9.60**	**-15.67**	**5.66**	**7.63**	**5.70**	**6.07**
Fees & Commission Income	139	40	392	381	231	-89.79	2.88	64.94	-7.36	0.08	0.74	0.74	0.43
Rental Income			143	128	84	-100.00	11.99	52.42	67.62		0.27	0.25	0.16
Dividend Income					40			-100.00					0.08
Foreign Exchange Income													
Investment Income			-263	-176	-4,735	-100.00	49.93	-96.29	465.33		-0.49	-0.34	-8.88
Share of Results of Unc. Subsidiaries & Associates					-266			-100.00	-241.63				-0.50
Profit on Sale of Unc. Subsidiaries & Associates													
Other Income	1,001	289	250	240	97	15.52	4.24	148.29	-59.42	0.59	0.47	0.47	0.18
NON-INTEREST INCOME / NON-FINANCING INCOME	**1,140**	**329**	**522**	**573**	**-4,549**	**-37.00**	**-8.94**	**-112.60**	**3952.35**	**0.67**	**0.98**	**1.12**	**-8.53**
GROSS INCOME	**10,711**	**3,090**	**4,582**	**3,497**	**-1,314**	**-32.55**	**31.00**	**-366.14**	**-135.29**	**6.33**	**8.61**	**6.82**	**-2.46**
General & Administrative Expense	4,503	1,299	1,608	1,500	1,656	-19.23	7.20	-9.38	-3.13	2.66	3.02	2.92	3.10
Lease / Rental Expense													
Depreciation & Amortization	89	26	28	18	16	-6.30	48.98	14.10	-69.29	0.05	0.05	0.04	0.03
Other Expenses													
OPERATING EXPENSES	**4,592**	**1,325**	**1,636**	**1,519**	**1,672**	**-19.01**	**7.71**	**-9.15**	**-5.11**	**2.71**	**3.07**	**2.96**	**3.13**
OPERATING PROFIT	**6,119**	**1,765**	**2,946**	**1,979**	**-2,986**	**-40.08**	**48.88**	**-166.26**	**-252.21**	**3.62**	**5.53**	**3.86**	**-5.60**
Provisions For Doubtful Financing Receivables	5	1	-1,091	-770	-673	-100.14	41.58	14.49	-38.35	0.00	-2.05	-1.50	-1.26
Other Provisions													
GROSS PROFIT	**6,124**	**1,767**	**1,855**	**1,208**	**-3,659**	**-4.76**	**53.54**	**-133.02**	**-520.53**	**3.62**	**3.49**	**2.36**	**-6.86**
Extraordinary Items	-47	-13								-0.03			
Taxes	-63	-18	-19	-13		-4.21	50.88		-100.00	-0.04	-0.04	-0.02	
NET PROFIT (LOSS)	**6,015**	**1,735**	**1,836**	**1,196**	**-3,659**	**-5.50**	**53.57**	**-132.68**	**-529.02**	**3.55**	**3.45**	**2.33**	**-6.86**
APPROPRIATION OF SURPLUS:													
Attributable To Minority Interests													
Dividends													
Transfer To Equity	**6,015**	**1,735**	**1,836**	**1,196**	**-3,659**	**-5.50**	**53.57**	**-132.68**	**-529.02**				
Bonus Shares Issued													
Changes In Equity Not Through P&L	**6,015**	**1,735**	**1,836**	**1,203**	**-3,774**	**-5.50**	**52.59**	**-131.88**	**-562.87**				

CORPORATE RATIO FORMULAE - FINANCING, LEASING & INVESTMENT

A SIZE FACTORS	
1 . TOTAL ASSETS	TOTAL ASSETS
2 . NET FINANCING RECEIVABLES	GROSS FINANCING RECEIVABLES - DEFERRED INCOME - PROVISIONS (FRLR)
3 . TOTAL EQUITY	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT CO.+ MINORITY INTEREST
4 . TANGIBLE NET-WORTH	TOTAL EQUITY - GOODWILL - OTHER INTANGIBLE ASSETS
5 . TOTAL DEBT	SHORT-TERM DEBT + LONG-TERM DEBT
6 . NET PROFIT	NET PROFIT
7 . ASSETS UNDER MANAGEMENT	ASSETS UNDER MANAGEMENT
B . ASSET QUALITY (%)	
8 . TOTAL ASSETS GROWTH RATE	CURRENT YEAR TOTAL ASSETS – PREVIOUS YEAR TOTAL ASSETS x 100 PREVIOUS YEAR TOTAL ASSETS
9 . FR-LOSS RESERVE / FINANCING RECEIVABLES	FINANCING RECEIVABLES LOSS RESERVE x 100 FINANCING RECEIVABLES
10 . NON-PERFORMING FR / FINANCING RECEIVABLES	NON PERFORMING FINANCING RECEIVABLES x 100 FINANCING RECEIVABLES
11 . FR-LOSS RESERVE / NON-PERFORMING FR	FINANCING RECEIVABLES LOSS RESERVE x 100 NON PERFORMING FINANCING RECEIVABLES
12 . UNPROVIDED NON-PERFORMING FR / TOTAL EQUITY	NON PERFORMING FR - FR LOSS RESERVE x 100 TOTAL EQUITY
13 . FR-LOSS PROVISION CHARGE / FINANCING RECEIVABLES	FINANCING RECEIVABLES PROVISION CHARGE x 100 FINANCING RECEIVABLES
C . CAPITAL AND LEVERAGE	
14 . TOTAL EQUITY GROWTH RATE (%)	CURRENT YEAR TOTAL EQUITY – PREVIOUS YEAR TOTAL EQUITY x 100 PREVIOUS YEAR TOTAL EQUITY
15 . TOTAL EQUITY / TOTAL ASSETS (%)	TOTAL EQUITY x 100 TOTAL ASSETS
16 . LEVERAGE (TIMES)	TOTAL LIABILITIES TOTAL EQUITY
17 LEVERAGE - EXCLUDING MINORITY INTEREST (TIMES)	TOTAL LIABILITIES TOTAL EQUITY - MINORITY INTERESTS
18 . TOTAL LIABILITIES / TANGIBLE NET-WORTH (TIMES)	TOTAL LIABILITIES TOTAL EQUITY - GOODWILL - OTHER INTANGIBLE ASSETS
19 . LONG-TERM DEBT / TOTAL EQUITY (TIMES)	LONG-TERM DEBT TOTAL EQUITY
20 . TOTAL DEBT / TOTAL EQUITY (TIMES)	SHORT-TERM DEBT + LONG-TERM DEBT TOTAL EQUITY
D . LIQUIDITY AND COVERAGE	
21 CURRENT RATIO (TIMES)	CURRENT ASSETS CURRENT LIABILITIES
22 . CASH + QI + ST GROSS FR / ST DEBT (TIMES)	CASH + QUOTED INVESTMENTS + ST GROSS FINANCINFG RECEIVABLES SHORT-TERM DEBT
23 . CASH & QUOTED INVESTMENTS / TOTAL ASSETS (%)	CASH + QUOTED INVESTMENTS x 100 TOTAL ASSETS
24 CASH & QUOTED INVESTMENTS / TOTAL LIABILITIES (%)	CASH + QUOTED INVESTMENTS x 100 TOTAL LIABILITIES
25 . NET FINANCING RECEIVABLES / TOTAL ASSETS (%)	NET FINANCING RECEIVABLES x 100 TOTAL ASSETS
26 . NET FINANCING RECEIVABLES / TOTAL LIABILITIES (%)	NET FINANCING RECEIVABLES x 100 TOTAL LIABILITIES
E . PROFITABILITY (%)	
27 . RETURN ON AVERAGE ASSETS (ROAA)	NET PROFIT x 100 AVERAGE TOTAL ASSETS
28 . RETURN ON AVERAGE EQUITY (ROAE)	NET PROFIT x 100 AVERAGE TOTAL EQUITY
29 . FUNDING COST	FINANCING EXPENSE x 100 AVERAGE TOTAL DEBT
30 . FINANCING INCOME ON AVERAGE EARNING ASSETS	FINANCING INCOME x 100 AVG. (CASH & BANKS + NET FINANCING RECEIVABLES + BONDS)
31 . FINANCING DIFFERENTIAL	FINANCING INCOME ON AVERAGE EARNING ASSETS - FUNDING COST
32 . NON-FINANCING INCOME / GROSS INCOME	NON FINANCING INCOME x 100 GROSS INCOME
33 . OPERATING EXPENSES / GROSS INCOME	OPERATING EXPENSES x 100 GROSS INCOME
34 . OPERATING PROFIT GROWTH RATE	CURRENT YEAR OPERATING PROFIT – PREVIOUS YEAR OPERATING PROFIT x 100 PREVIOUS YEAR OPERATING PROFIT
35 . OPERATING PROFIT / AVERAGE ASSETS	OPERATING PROFIT x 100 AVERAGE TOTAL ASSETS
36 . RISK PROVISIONING CHARGE / OPERATING PROFITS	PROVISION CHARGE FOR DOUBTFUL FR + OTHER PROVISION CHARGES x 100 OPERATING PROFITS
37 . REALIZED INCOME / GROSS INCOME	REALIZED INCOME x 100 TOTAL INCOME
38 . DIVIDEND PAYOUT RATIO	CASH DIVIDENDS x 100 NET PROFIT

RATINGS DEFINITIONS

International Issuer Credit Ratings: Foreign Currency and Local Currency

CI's international issuer credit ratings indicate the general creditworthiness of an entity (such as a bank, corporate or sovereign) and the likelihood that it will meet its financial obligations in a timely manner. Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

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

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

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

CI may assign either a public rating or an internal 'shadow' rating to the sovereign. Shadow sovereign ratings are not intended for publication and are used to ensure that sovereign risk factors are adequately reflected in the ratings of non-sovereign issuers.

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

Long-Term Issuer Ratings

Investment Grade

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

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

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

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

Speculative Grade

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

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

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

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

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

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

Short-Term Issuer Ratings

Investment Grade

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

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

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

Speculative Grade

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

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

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

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

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

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

Outlook – expectations of improvement, no change or deterioration in a bank or corporate rating over the 12 months following its publication are denoted Positive, Stable or Negative. The time horizon for a sovereign rating outlook is longer, at 12-24 months.

ATTRIBUTES AND LIMITATIONS OF CREDIT RATINGS

Users of Capital Intelligence's (CI) credit ratings should be aware of the following attributes and limitations of the ratings:

- CI's credit ratings are statements of opinion and not statements of fact. They are an independent opinion of the creditworthiness of an entity or obligor either in general (an issuer rating) or with regard to a specific financial obligation (an issue rating).

- CI's credit ratings are intended to provide a relative ranking of credit risk among rated entities and obligations based on fundamental credit analysis and expressed in rating symbols from 'AAA' to 'D'. Reflecting the limited number of gradations, entities or obligations with the same rating may not be of exactly the same credit quality, but they will share substantially similar credit risk characteristics.

- CI's credit ratings are assigned by, and all subsequent rating actions (including upgrades, downgrades and changes in outlook) determined by, rating committees and never by an individual analyst.

- CI's credit ratings indicate the likelihood of default, but they do not indicate a specific probability of default over any given time period.

- CI may initiate credit ratings on issuers without the request of the issuer provided there is adequate public information available to form a credible opinion of the issuer's creditworthiness.

- CI does not audit or verify the accuracy of information obtained from issuers as part of the rating process and may, in some cases, rely on unaudited financial data.

- A credit rating may, at any time, be raised, lowered, placed under review, suspended or withdrawn in accordance with CI's policies and procedures.

- CI may assign private 'shadow' sovereign ratings – internal assessments of sovereign risk that are not intended for publication and are used as an input into other rating assessments. Shadow sovereign ratings may constrain or cap the ratings of other rated issuers within a country. Shadow sovereign ratings may be based on a lower level of information or less detailed analysis compared to public sovereign ratings and, although monitored, may be reviewed less frequently than every six months. They do not represent a full rating opinion.

CI's credit ratings may be used as an analytical input into, but are not a substitute for, investors' own risk management. Investors in particular should be aware that:

- CI's credit ratings focus on one aspect of investment risk – credit (or repayment) risk – and do not explicitly capture loss severity or recovery prospects.

- CI's ratings are not recommendations to purchase, sell, or hold stocks or shares in an institution or particular security.

- CI's ratings do not assess or indicate the likelihood of changes in the market price of rated instruments due to market-related factors such as changes in interest rates or liquidity.

- CI's ratings do not provide an opinion of the liquidity in the market of an issuer's securities.