

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

# **Corporate Rating Report**

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

**Kuwait**

## **Capital Intelligence**

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

Kuwait, 16 December 2015

<b>RATINGS</b>				<b>FINANCIAL HIGHLIGHTS</b>				
	<b>Current</b>	<b>Last Changed From</b>	<b>Date</b>	<b>USD (mn) KWD (mn)</b>	<b>Q3 2015 USD</b>	<b>Q3 2015 KWD</b>	<b>2014 KWD</b>	<b>2013 KWD</b>
<b>Sovereign</b>	<b>AA- A1+ Stable</b>	A+	Apr 07	Net Financing Income	7.9	2.4	3.6	4.1
Long-Term:		A1	Apr 07	Non-Financing Income	1.3	0.4	0.5	0.5
Short-Term:		-	-	Operating Expenses	4.3	1.3	1.7	1.6
Outlook		-	-	Net Profit / Loss	4.4	1.3	2.2	1.8
<b>Corporate Rating</b>	<b>BB- B</b>	B+	Dec 14	Total Assets	167.9	50.8	45.2	52.0
Long-Term		-	-	Net Financing Rec.	114.9	34.8	31.6	40.0
Short-Term		-	-	Total Debt	43.7	13.2	6.9	12.4
		-	-	Total Equity	116.9	35.4	35.6	33.4
				<i>Exchange Rate: USD/KWD</i>				
<b>Outlook</b>	<b>Positive</b>	Stable	Dec 15	NPFR / Financing Receivables		10.11	11.08	12.60
				FR-Loss Reserve / NPFR		92.99	86.51	52.96
				Total Equity / Total Assets		69.73	78.84	64.26
				Leverage		0.43	0.27	0.56
				ROAA (%) <i>Annualised</i>		3.67	4.54	3.45
				ROAE (%) <i>Annualised</i>		4.95	6.39	5.65

## RATINGS DRIVERS

### Supporting the Rating

- Sustained improvement in the quality of the financing receivables book and a rise in loss coverage to a high level at end Q3 2015.
- Sound debt maturity profile with good maturity matching; comfortable debt serviceability supported by collection of finance receivables.
- Good increase of the finance receivable book at end Q3 2015, as well as the new funding facility to support future growth.
- Sustained net profitability, notwithstanding the decline in operating profitability and a contraction in first nine months of 2015.

### Constraining the Rating

- Very small balance sheet and modest market share in the Kuwait consumer financing sector.
- Still high non-performing finance receivable (NPFR) ratio at end Q3 2015 despite the improvement in the periods under review.
- Very limited and concentrated lender base as well as a fairly high level of encumbered assets.
- Narrow range of revenue streams and declining finance differential.

## RATING RATIONALE

Capital Intelligence (CI) affirms Al Manar Financing and Leasing Company K.S.C.'s (Al Manar) Corporate Long-Term Rating at 'BB-' and Short-Term Rating at 'B' underpinned by the sustained improvement in the quality of its finance receivable book, sound debt maturity profile with good maturity matching, comfortable debt serviceability supported by collection of finance receivable, and the healthy growth of its finance receivable book. The Company's ratings however remain constrained by its small balance sheet, modest market share, still high NPFR ratio, the limited and concentrated lender base, and the narrow revenue streams. While the consumer finance market in Kuwait remains challenging for the Company, CI appends a 'Positive' Outlook to the ratings in acknowledgement of the good improvement of the Company's financial profile, notwithstanding the decline in operating profitability in the periods under review. The finalisation of additional funding line, sustained growth of the finance receivable book and a halt to the declining profitability ratios would put an upward pressure on the Company's ratings.

The consumer finance market in Kuwait has become more difficult with increased competition from banks and limited access to funding given the reluctance of banks to lend to finance companies – something that may possibly increase given the tighter liquidity in the market due to the impact of the lower oil price on the economy. In the past, when funding was readily available, Al Manar was able to perform well as evidenced by its ability to generate good growth in its finance receivables book. The setback seen in 2014, with the sizeable contraction of its finance receivable book, was due to the lack of a new funding line. This was not in place until the fourth quarter of 2014. However, the new funding supported the healthy growth of the finance receivable book in the first nine months of 2015. The quality of the finance receivable book has continued to improve in the periods under review, with its NPFR ratio dropping to close to that of its largest peer, while its loss coverage ratio reached a high level and one that was ahead of some of its peers at end Q3 2015. This improvement is a major positive for the Company and a strong support to the ratings, as well as the 'Positive' Outlook assigned. However, the still high NPFR ratio remains a constraint to the ratings. The other assets of the Company continue to mainly comprise its investment portfolio which includes financial assets, murabaha receivables and investment properties. These were maintained at a fairly stable level in the periods under review. Overall contributions to revenues however remained modest and volatile, reflecting the movement of the stock market.

The Company has been rebuilding its capital base through internal generation. Retained earnings have now returned to positive territory. A dividend payment of more than two thirds of earnings was however made in respect of the good growth of net profit in 2014. The Company's leverage ratio has moved higher, in tandem with the debt levels, but at end Q3 2015, it remained low for a finance company. The Company's ability to increase funding lines from its existing lender is positive, although the resultant increased concentration is an offsetting negative factor and one which constrains the Company's rating. Debt profile is sound with the good maturity mismatch. The Company's comfortable debt serviceability remains supported by the collection of finance receivables. In terms of liquidity, with its financial investments largely in the form of unquoted equities or investment properties, liquid asset holdings were limited to cash balances and the investment in murabaha receivables. That said, as in previous years, the Company's effective liquidity is boosted by the large proportion of short-term finance receivables.

The Company's revenue stream remained narrow and largely related to its finance receivable book in line with its business model. A negative trend however is the declining net financing income largely due to the sustained narrowing of the finance differential. The latter reflects the increased competition from other financial institutions, as well as the small consumer finance market in Kuwait. This pressure on the finance differential is also seen among its peers. The decline of operating profitability in the period under review is a negative factor. However, the Company's net profitability remained at a good level, notwithstanding the decline in the first nine months of 2015. The improvement seen in 2014 was largely the result of a much lower provision charge, which it can afford in view of the improvement of the quality of its finance receivable book.

## **OUTLOOK**

Going forward, as revealed in the Company's financial forecasts and evidenced in prior years, the expansion of the finance receivable book will remain dependent on the availability of funding. In this area, the Company is hopeful of increasing the size of the existing facility from its major lender. Consequently, its funding base is limited and concentrated. The quality of its finance receivable book is expected to be maintained with its track record of good recoveries and remedial actions, and the Company will also continue to take provisions as a buffer against the seasoning of new finance receivables. Liquid asset holdings will remain limited to cash balances with the collection of finance receivables as a main component supporting the Company's liquidity position. No capital increase is projected in its current financial forecasts to 2020, and growth of the equity base will be through the retention of earnings. However, as the Company intends to pay an increasing dividend payment, this will likely constrain internal capital generation. Leverage is expected to remain low for a finance company. With no changes to its business model, revenue streams will remain narrow, largely confined to financing income. With regards to the latter, while the finance receivable business is

expected to remain profitable, the arrest of the declining the trend in financing differential will be a major challenge for the Company given the high competition and a relative small size of the market in Kuwait.

## COMPANY HISTORY AND STRATEGIES

### History

Al Manar Financing and Leasing Company K.S.C. (Closed) was established in November 2003. Al Manar's primary area of activity remains the provision of consumer finance, largely for the purchase of automobiles. However, it also makes other types of loans to consumers

<b>Al Manar's Major Shareholders at end Q3 2015</b>		<b>%</b>
Investment House (Clients A/C-Qatari Client: QIPCO Holding)		15.91
Wafra International Investment Co (Clients account: PIFSS)		14.58
Financial Assets		13.74
Global Investment House Co (Clients account)		9.45
Other*		59.99
<b>Total</b>		<b>100.00</b>

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

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). Al Manar's major shareholders have remained very stable for the past few years and the position at end Q3 2015 is shown in the table above. Al Manar employed 65 staff members at end Q3 2015, up by one from end 2013.

### 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 15 years.

While Al Manar may have a good share of the consumer finance market amongst the finance companies in Kuwait, its overall share of this market – including commercial banks and finance companies – was modest at 0.08% and 0.083% at end 2014 and Q3 2015, respectively.

**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.

## **INVESTMENTS**

At end Q3 2015, 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 (largely unquoted investments), a book of Islamic instruments, and a small portfolio of investment properties. The latter were acquired from the foreclosure of NPFs in earlier years. These properties consisted of four fairly small buildings which were rented out. The aggregate fair valuation of these properties has risen in the periods under review, although contributions to revenue in terms of rental income remained fairly modest at end Q3 2015.

Net contributions from the financial investments portfolio turned positive in 2014 before falling back into a loss in Q3 2015. The latter was however largely due to a precautionary impairment charge taken on its investment in Qatar Finance House (QFH). Plans to liquidate this holding are still ongoing. Dividend income more than doubled in Q3 2015 from end 2014, with a payment from Gulf Takaful Insurance, although in money terms this income was also fairly modest at KWD83k at end Q3 2015. With regional stock markets remaining weak, the net contribution from the financial investments portfolio is likely to remain negative for the full year 2015.

## **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, the latest facility was also secured against deposits and investment properties. Please see *Funding and Liquidity* in the Financial Analysis section (p.14) for further details.

## **PRINCIPAL BUSINESS STRATEGIES**

Since the onset of the regional recession in 2008, 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, NPFs 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 NPFs 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 October 2014 to KWD15mn.

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 QFH.

## **ECONOMIC OUTLOOK FOR KUWAIT**

**Non-oil growth slowed in 2014, but is expected to pick up in 2015.** Growth in the Kuwait's non-oil economy slowed to 2.1% in real terms in 2014, according to preliminary data published by the Central Statistical Bureau (CSB). Real growth in overall GDP declined by 1.6% pulled down by the oil sector. The latter shrank by 1.7% during 2014 following a similar decrease the year before. While 2014 saw oil prices plunge, this was not reflected in the real GDP figures, which were computed at constant 2010 prices. Oil GDP in nominal terms was down by 10.6% during 2014 largely due to the decline in oil price. Domestic demand slowed during the year but remained fairly decent at 4.4%. A notable slowdown was also seen in investment expenditures; however, this is likely to be temporary. Preliminary data contradicts indications that the implementation of the government's Development Plan projects is picking up pace. Slower non-oil growth in 2014 also coincided with a slowdown in credit during the year. Growth has however shown signs of recovery in recent months. The annualised growth in Q2 2015 rose to 8.9% quarter-on-quarter (QoQ), following three quarters of weaker growth. Non-oil activity growth is anticipated to pick to around 4-5% in 2015 and 2016 buoyed by increased investment spending in line with the government's Development Plan. Kuwait authorities are expected to continue to push ahead with strategic projects worth KWD30 billion over the coming five years despite the low oil price concerns in view of the country very comfortable fiscal buffers.

**Oil prices.** From the macroeconomic viewpoint, the Kuwaiti economy continues to do well despite the rapid decline in oil prices in Q4 2014 and into early 2015. Prior to this, governmental revenues had been strong on the back of higher oil prices, although volumes were constrained by adherence to the country's OPEC production quota.

	Brent USD		KEC USD	Breakeven Budget USD
		<b>2009-10</b>	68.60	28.00
<b>2010</b>	80.00	<b>2010-11</b>	82.50	47.50
<b>2011</b>	110.91	<b>2011-12</b>	109.70	39.10
<b>2012</b>	111.67	<b>2012-13</b>	106.60	49.00
<b>2013</b>	111.00	<b>2013-14</b>	103.20	50.50
<b>2014</b>	99.02	<b>2014-15</b>	81.30	54.00

The five years to mid-2014 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.

**Oil Price Outlook.** The volatile oil markets seen in late August gave way to a more settled period in September, with benchmark crudes of Brent and West Texas Intermediate trading within the USD46-49 per barrel and USD44-46 per barrel ranges, respectively, for most of September 2015. Nonetheless, both crudes were still down – near six and a half year lows weighed down by continued concerns on the economic growth in emerging markets, particularly China's.

A projected unwinding of demand/supply mismatch could see a rebound of oil prices going into 2016 and beyond. The oil supply glut, estimated by IEA to be around 1.6mn barrels a day during Q3 2015, is anticipated to ease as demand improve from the lows of 2014 and supply growth slows due to cuts



in investment, and ultimately production due to low oil prices. Preliminary estimates for Q3 2015 show that demand growth reached 1.7mn barrel per day for the third quarter in a row supported by better than expected numbers from US, China, Europe and Russia. Conversely low oil prices are having a negative effect on global supplies, especially on non-OPEC crude oil production. IEA anticipates non-OPEC supply growth to slow to 1.1mn barrel per day for 2015 from 2.3mn barrel per day of last year. With the oil prices below the estimated breakeven cost for major US shale plays, the decline in drilling completion rates has been observed since the start of 2015 and is expected to continue in 2016. OPEC output on the other hand remains elevated. Production has surged by more than 1.5mn per day year-on-year (YoY), even when prices have fallen by more than 50% over the same period. Saudi Arabia, UAE and Iraq continue to pump at or near record levels in August 2015. Saudi Arabia remains steadfast in its pursuit of market share. The elevated output in August was also in response to heightened domestic power demand during the hot summer months. Kuwait, on the other hand, boosted oil production by 70,000 barrel per day to 2.89mn barrel per day in August, according to official sources. This was the highest figure in a year and resulted from the successful enhanced oil recovery techniques to its maturing fields. Otherwise, output could be down by at least 250,000 barrel per day in view of the cessation of production from both the Khafji and Wafra oil fields, which Kuwait shares with Saudi Arabia. The two countries have yet to resolve the operational dispute.

**Surplus ended in FY2014-15 – and a larger deficit is expected for FY2015-16.** Although the current account surplus declined by 7.9% in 2013, at KWD20.3 billion it remained very substantial in money terms.

The interim public finance figures for the first five months (to August) of fiscal year 2015-16 point to a relative slowdown of total government spending. Revenues were down due to the sustained drop in oil prices from a year ago. The government recorded a preliminary surplus of KWD1.3 billion during the period which was the smallest in a decade. This surplus is expected to turn into a deficit of KWD2.1 billion by the end of FY2015-16 (August 2015) or 5.5% of GDP. Total government spending is projected to decline by 15% in FY2015-16, while revenues are seen to decline by 35%.

The government also plans to introduce several reforms that could boost non-oil revenues and reduce reliance on oil resources, although impact on current fiscal year will be limited. Petrol subsidy reform could be introduced in the coming months, although it will be phased in over several years. Legislation for a 10% corporate tax and could also be passed by mid-2016 with implementation not expected for another year. This tax will replace the current tax on foreign companies, as well as zakat, labour support and KFAS taxes, and could generate up to KWD1 billion in revenues. Kuwait also plans to introduce value added tax (VAT) though this awaits a GCC-wide decision.

**Politics Matter.** Kuwait has a history of failing to follow through on previously announced projects, often because of parliamentary objections once individual projects have reached the contracts award stage – with BOT projects or projects involving foreign oil companies in actual production, in particular, 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) and the subsequent project spending approvals, there is now rather more reason for optimism that matters have changed significantly for the better. However, the Opposition has not gone away and whether in parliament or outside, the arguments will continue – especially if lower oil prices mean moves by the government to cut back on (wasteful) current expenditure, such as fuel and energy subsidies.

### 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. Accordingly, the massive fall in oil prices since June 2014 has put a real squeeze on government revenues for the first time in a long while.
- **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. Economic logic calls for economies to be made, but these will be extremely difficult to pass through a parliament used to the government buying off opposition with ever greater grants and subsidies. If spending cannot be significantly cut, then the focus must fall on revenues – and the possibility of significantly expanding the taxation base. However, this too will be hard to push through parliament. The danger is therefore that the brunt of any 'economies' will fall on badly-needed infrastructure spending.

- **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 – and making up the backlog may suffer from lower government oil revenues.
- **Low level of Foreign Direct Investment (FDI).** The business environment is somewhat challenging – as with other GCC countries, and 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.

## CONSUMER SECTOR OVERVIEW

The consumer sector in Kuwait remains robust despite some moderation. Household debt growth remained in double digits, even though it has slowed down over the last twelve months. Consumer spending growth maintained a good pace driven by good sentiment and healthy growth in household income. Employment growth has improved over the last 12 months, largely supported the consumer sector. Household debt growth stood at 12.5% YoY in July largely unchanged YoY. Personal facilities, excluding credit for the purchase of securities, rose to KWD10.2 billion. Most of the growth has been in instalment loans to finance home acquisition. Consumer spending remained relatively healthy, although it began to moderate in 2015. Employment among Kuwaiti nationals on the other hand has picked up slightly over the past 12 months. The consumer sector is thus expected to maintain healthy growth, with the robust employment growth and the strong housing demand.

## OVERVIEW OF THE CONSUMER CREDIT MARKET IN KUWAIT

As in many 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 was 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 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.

**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 12<sup>th</sup> June 2013 will be settled by the government on behalf of the *approved*<sup>1</sup> 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 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.

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<sup>1</sup> Eligible borrowers must apply to be able to benefit from the scheme – enrollment is not automatic.

**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.

## **RISK FACTORS**

### **Credit risks:**

The credit quality of the Company's finance receivable has improved noticeably over the past few years. 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. Consequently, the Company's NPFR ratio fell substantially from 38.9% at end 2012 to 12.6% at end Q3 2014. NPFRs continued to decline in the period under review through recovery which led to the NPFR ratio dropping to 11.1% at end 2014 and further to 10.1% at end Q3 2015. Loss coverage on the other hand has been rising and stood at a high 93.0% at end Q3 2015. These ratios compared favourably with those of its larger peers.

### **Borrowing / funding risks:**

As Al Manar cannot have a customer deposit base due to regulatory restrictions, 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. Together with the trend towards tighter liquidity in Kuwait (in general and government sector deposits in particular) due to the impact of the low oil price on the economy, the ability of the Company to have secured an increase to funding line from its main lender is a positive factor. However, the Company continues to borrow largely on a secured basis and the higher level of collateral provided compared to prior years could limit the Company's ability to raise any additional lines. That said, any new funding would enable the Company to rebuild its finance receivable book, which in turn is the main type of asset pledged as collateral.

### **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 has also amounted to an even more challenging operating environment for non-bank lenders. Management advised that the Company's share of the consumer finance market remained a modest 0.8%, although among the consumer finance companies, it was higher at 6.0%. Consequently, there is still plenty of room for improvement and Al Manar would need to draw on its experience and expertise to provide a competitive edge in terms of service, approval time, etc.

### **Profitability Risks:**

The financing receivables business remains profitable for the Company, but margins have undoubtedly been declining over the past few years. That said, the negative impact of its investment portfolio, which has mainly either constrained profit or caused the losses reported over the years, has been the case in the past. A large part of the losses in previous years were related to the impairment losses of its securities investment portfolio (largely unquoted), which in turn reflected the Company's conservative approach to the valuation of these investments.

With the stock market remaining weak and a continued proactive impairment policy, contributions of its financial investments turned back to a loss at the end of Q3 2015 and is likely to remain so for the

full year 2015. Net financing income growth also continued its downward trend in 2014 and in the nine months to Q3 2015, constrained by the sustained narrowing of financing differential, although this is in common with its peers given the increased competition from conventional and Islamic financial institutions. The Company however remains focused on running an efficient operation (notwithstanding the higher increase of operating expense in Q3 2015), and the lower risk charge from the improving quality of its finance receivable book could help the Company to maintain its still good net profitability ratio compared with its peers.

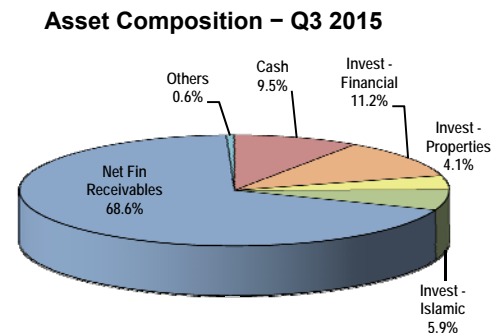
## **FINANCIAL ANALYSIS**

The 2014 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 2014 accounts are unqualified. The following analysis also uses the nine months ending September 2015 financials which are unaudited, but reviewed.

## **BALANCE SHEET**

**Sharper contraction of asset growth in 2014, but this recovered in the nine months ending September 2015.** Reversing the healthy 13.0% growth seen in 2012, the Company's asset base declined by 4.4% in 2013, and a sharper contraction was seen in 2014. Total assets fell by 13.1% to KWD45.2mn (USD154.4mn) at end 2014.

Unlike the decline in 2013, which was largely related to the fall in cash and cash equivalent assets, the contraction of the asset base in 2014 was largely due to the fall of the finance receivable book, which was a major negative development for the Company. Partly offsetting this negative was the rise in cash and cash equivalent assets, which rose back to KWD2.2mn from the low KWD0.5mn a year earlier, although it represented a relatively modest 4.9% of total assets at end 2014.

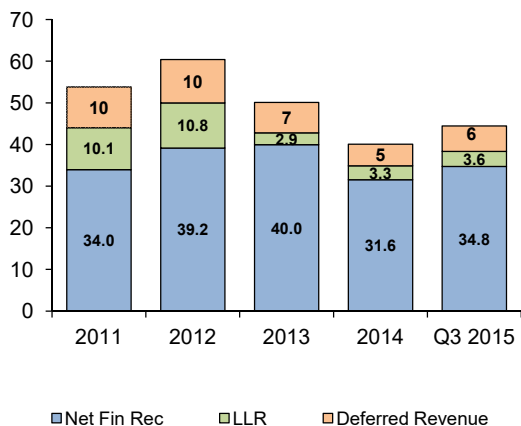


The net financing book grew by a sedated 2.0% in 2013 before declining by a sizeable 21.0% at end 2014. At KWD31.6mn (USD107.8mn), it represented 69.9% of total assets at end 2014, down noticeably from 76.9% a year earlier. See the next section on the finance receivable book for further details. The Company's financial investments portfolio was fairly stable at end 2014 with the small decline of Islamic investments almost offset by the equally small increase of its trading book. In aggregate, these investments totalled KWD8.9mn, compared to KWD9.0mn a year earlier. The Company's book of investment properties remained largely the same, and in aggregate, these investments formed a sizeable 24.4% of total assets at end 2014.

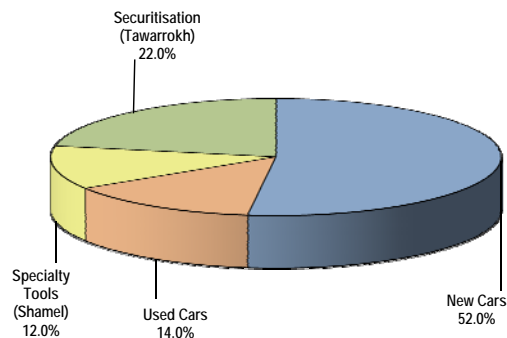
At end of the nine months ending September 2015, the Company showed some recovery with a healthy 10.1% growth of net financing receivables, as well as a higher level of cash and cash equivalent assets. The latter more than doubled to KWD4.8mn and represented a higher 9.4% of total assets. The net finance receivables book on the other hand expanded to KWD34.8mn (USD114.9mn), but it represented a slightly lower 68.5% of the Company's asset base at end Q3 2015. The book of Islamic and financial investments declined marginally to KWD8.7mn, but the investment properties book was stable. Together they accounted for 21.3% of total assets at end Q3 2015. In line with its lending policy, the Company's assets remained predominately in Kuwait.



**Financing Receivables Portfolio**



**Composition of Finance Receivable Book at end Q3 2015**



**Moderate book of finance receivable at end Q3 2015, notwithstanding the healthy growth.** As illustrated in the above bar chart, the sizeable decline of 2014 had set back the Company a number of years in terms of growth of the finance receivable book. At end Q3 2015, it only reached slightly above the level seen in 2011 following the sizeable contraction seen in 2014.

In the period 2009 to 2011, there had been a continuing decline at both the gross and net levels. In 2012, with a new facility from KFH, the financing receivables book grew by a solid 15.3% to reach KWD39.2mn at end 2012. Amid a challenging consumer finance market, the net finance book rose modestly in 2013, although it still compared well with the decline seen at some of its large peers. However, with the consumer finance market remaining challenging with increased competition, as well as limited availability of funding, the Company's net financing book declined by a sharp 13.1% to KWD31.6mn at end 2014. The Company was however able to secure a new revolving credit facility with KFH in October 2014, which supported the healthy growth of the finance receivable book in the first nine months of the year.

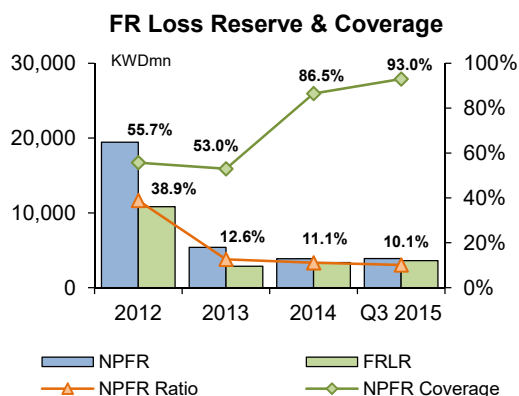
Composition of the finance receivable book on the other hand had remained fairly stable in 2014 and at end Q3 2015. Financing of new vehicles continued to constitute the largest proportion of the total book at end 2014 and Q3 2015 at 58% and 52%, respectively. This was followed by securitisation (tawarrokh facilities), accounting for 18% and 22% of total at end 2014 and Q3 2015, respectively. Securitisation facilities are largely used to finance working capital financing, purchasing of real estate and financing of goods purchases abroad. Financing of used cars came next with 15% and 14% of total, with the remainder of the book made up of financing of specialty tools (shamel facilities). The latter are used to finance heavy equipments, tractors and buses.

## QUALITY OF THE FINANCE RECEIVABLE BOOK

**Sustained improvement of the quality of the financing receivable book; continued lowering of NPFR ratio, although remaining slightly higher than some of its larger peers.** Continuing from the improving trend of the past few years, Al Manar's NPFRs fell further by 28.3% in 2014 before inching up very slightly by 0.2% at Q3 2015. The sharper decline of NPFRs than the finance receivable saw the Company's NPFR ratio fall to 11.1%.

This improvement reflects the good remedial action and recoveries of the Company and mirrored the trend at some of its larger peers. However, the ratio remained slightly higher than its larger rival CFC with a NPFR ratio of 8.6% at end 2014. At end Q3 2015, the small increase of NPFRs was more than offset by the healthy growth of the finance receivable book, which led to another fall of the NPFR ratio to 10.1%. The latter has moved much closer to the quality indicators of its larger peer and is comparable with a number of finance companies in the region.

In 2014, the Company wrote off a very small KWD0.2mn compared to KWD9.1mn a year earlier. Included in the finance receivable book was deferred revenue of KWD5.2mn, down from KWD7.3mn. Information of aging of NPFRs over the past few years showed good decline in the longer time buckets, in particular 360+ days and 181-360 days. Nonetheless, at end 2014 and Q3 2015, as shown in the table below, NPFRs over 360+ days continued to constitute the bulk of the Company's NPFRs. As per information from management, the composition of the NPFRs book at end Q3 2015 remained similar to that at end 2014. By facility type, the largest component was securitisation financing (tawarokh) which continued to form close to half of total NPFRs at end 2014 and Q3 2015 (49.4% and 48.2% respectively). This was followed by new vehicles financing at 30.0% at end 2014 and 31.7% at end Q3 2015. The third largest contributor was speciality tool financing (shamel) at 11.0% and 10.1% at end 2014 and end Q3 2015, respectively. NPFR for used vehicles came fourth, contributing another 9.3% and 9.6% to total at end 2014 and Q3 2015, respectively.



Aging of NPFRs			
KWDmn	2013	2014	Q3 2015
91-180 Days	0.79	0.96	0.74
181-360 Days	1.60	0.68	0.49
360 + Days	3.01	2.23	2.65
<b>Total</b>	<b>5.40</b>	<b>3.87</b>	<b>3.88</b>

**High NPFR loss reserve coverage achieved at end Q3 2015.** Despite the fall in NPFRs, the Company stepped up provisioning in 2014. Finance receivable loss reserve increased by 17.2% to KWD3.3mn at end 2014 and a further 7.7% to KWD3.6mn at end Q3 2015. Al Manar's NPFR loss coverage ratio thus jumped from a fairly low 53.0% at end 2013 to 86.5% at end 2014 and to a high 93.0% at end Q3 2015. This ratio compares well with its larger peers and those of other finance companies in the region.

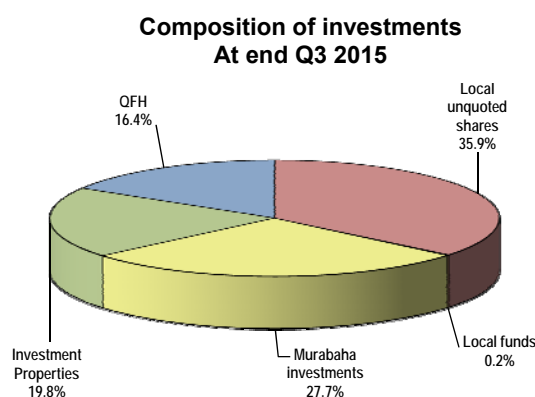
The sustained lowering of the Company's NPFR ratio and the building up of loss coverage to the high level seen at end Q3 2015 are positive factors which strongly support the Company's ratings.

**High collateral.** It is worth mentioning that the Company also has collateral against its NPFR book amounting to KWD2.1mn in aggregate at end Q3 2015 (2014: KWD2.2mn). This collateral comprised 48.8% of shares and 47.8% in real estate assets, with the small remainder in letters of guarantee. It should also be noted 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 good, as borrowers can always liquidate the vehicle with the permission from the Company to pay any past due instalments. CI however remains of the view that FRLR (finance receivable loss reserve) in any consumer finance business should be high to reflect the effective collectable value of security and the intrinsic risk of this type of lending. Al Manar has raised NPFR loss coverage to a high 93.0% and the shortfall to full coverage was modest at KWD0.3mn, which is equivalent less than two months on the annualised operating profit at end Q3 2015.

**A still high level of past due but not impaired financing receivables.** The Company's PDNI financing receivables all under 90 days stood at KWD11.2mn, slightly down from KWD12.1mn a year earlier. These PDNIs represented a slightly higher 27.9% of the gross finance receivable book compared to 24.3% a year earlier but lower than the 30.3% seen in 2012.

Investments Type KWDmn	2013	2014	Q3 2015
Financial Invests (FVIS & AFS)	5.8	5.9	5.7
Islamic Instruments	3.1	3.0	3.0
Properties	2.1	2.1	2.1
<b>Total</b>	<b>11.0</b>	<b>11.0</b>	<b>10.8</b>



**A modest investments book in money terms.** The components of the Company's investment portfolio are illustrated in the above table. This portfolio remained stable in 2014, but declined marginally by 1.8% to KWD10.8mn at end Q3 2015. While it remained modest in absolute money terms, the portfolio represented a sizeable 21.3% of the Company's total assets.

**Financial investments were largely unquoted.** At end 2014, 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 QFH.<sup>2</sup> The bulk of the FVTPL book on the other hand was made up of eight individual holdings in unquoted local shares, including a small proportion (0.5% of the FVIS book) in local funds. Both the local unquoted shares and unquoted funds carried a Level 2 fair value hierarchy (market comparative prices of identical assets) and were distributed across a number of industrial sectors.

At end 2014, net contributions turned positive totalling KWD97.8k reversing the loss of KWD263.3k a year earlier. However, in Q3 2015, a precautionary impairment charge on its QFH investments and further revaluation of its FVPTL investments in view of the weak stock market, saw the net contribution moving back to a net loss of KWD92.7mn. The composition of both the AFS and FVTPL book remained the same and represented 11.2% of total assets.

**Small portfolio of Islamic instruments and investment properties with modest revenue contributions.** As can be seen in the *Investment Type* table (above), there was a small decrease in Islamic instruments (amount deposited at local financial institutions according to Murabaha contracts) at end 2014, but maintained at the same level seen at end Q3 2015. The Company's

<sup>2</sup> 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 has been exploring options for a possible sale of its remaining 14.8% stake. The latter was reduced from 20% stake holding in 2012. In Q3 2015, the Company also took a small precautionary impairment of KWD95k. QFH made a loss of QAR55.1mn in 2014 due largely to the revaluation loss of QAR38.2mn compared to a gain of QAR9.4mn a year earlier.



portfolio of investment properties on the other hand remained stable at KWD2.1mn in the periods under review. They comprised of the same four properties all located in Kuwait and are held to earn rentals and/or for capital appreciation.

The aggregate market value of these properties has been rising steadily over the past few years – from KWD2.5mn in 2012 to KWD2.9mn in 2013 and further to KWD3.4mn in 2014. Valuations are generally carried out twice a year in June and December by independent valuers which are not related to the Company. As per information provided by management, the aggregate fair valuation of these investment properties rose further to KWD3.7mn for the first nine months of 2015. Monthly average rental income however remained modest. See table below.

Investment Properties – end Q3 2015				
Area	Size (sqm)	Number Of Floors	Monthly Income KWD	Market Value KWD
Al-Mahboola	500	Basement + Ground + 5 Floors + Outside Shop	4,670	1,000,000
Al-Fahaheel	747	Ground + 2 Floors	2,467	1,350,000
Al-Mangaf	1000	Two Buildings : Building 1 - Ground + 5 Floors Building 2 - Ground + 7 Floors+ Outside Shop	6,079	1,350,000

## **FUNDING & LIQUIDITY**

**Sound debt maturity profile, although lender base remained limited and concentrated.** The Company's small lender base narrowed further in 2014 with the repayment of borrowings from the Public Institution for Social Security (through Ahli United Bank, Kuwait). Total borrowings fell to a low KWD6.9mn at end 2014, before rising to KWD13.2mn, with the drawdown of the KWD15mn revolving credit facility from KFH.

At end Q3 2015, the Company's borrowings comprised largely of murabaha payables and Islamic wakala. The bulk was provided by KFH with the small remainder facility from Rasameel a structure finance company in Kuwait. This heavy reliance on one lender is a major negative element of its funding base. Management advised that a further increase of the KFH facility from KWD15mn to KWD20mn is currently under consideration by the Bank.

**Secured borrowing.** 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 (usually covering 150% of debt amount). However, the latest facility was also secured against deposits and investment properties. Collateral pledged provided by management as at end Q3 2015 is shown in the above table. In aggregate, this collateral represented nearly half of the Company's total assets at end Q3 2015 and provided a debt to asset ratio of 175.4%.

Encumbered Assets	Q3 2015		
	KWDmn	% of Total Portfolio	% of Total Assets
Investment properties	2.1	100.0	4.2
Islamic Instruments	3.0	100.0	5.9
Financing Receivables*	19.8	44.5	39.0
<b>Total</b>	<b>24.9</b>	<b>50.20</b>	<b>49.1</b>

This high level of collateral could curtail the Company's ability to raise further funds going forward. At the same time, desirability of its remaining unencumbered assets is questionable given the KWD3.9mn of NPFRs and its FVTPL and AFS which are largely unquoted. That said, management advised that an increase to the revolving credit facility from KFH from KWD15mn to KWD20mn is under consideration. Furthermore, they have also signed an agreement with its other lender, Rasameel, to source USD50mn (equivalent KWD15mn) of new funding. The latter will be in the form of a three year Murabaha facility with quarterly instalment payments (to begin early next year) to be sought from GCC banks and companies.

Based on the general guideline of 175.0% collateral basis, this would mean collateral totalling KWD61.3mn when fully drawdown. However, it should be noted that with new funding lines, the Company will be able to comfortably grow its finance receivable book over the next couple of years which in turn would meet the amount of collateral required. The Company's financial forecasts (see Appendix attached) projected sales of KWD36.0mn in 2016 and increasing just under 10% in 2017 before slowing down to around 5% growth for the next two years to 2019 and to declining to under 5% in 2020.

**Low leverage for a finance company.** In tandem with the trend of debt level and growth of the equity base in the periods under review, the Company's leverage dropped to a very low 0.27 times at end 2014 before climbing back to 0.43 times at end Q3 2015. 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, which will in turn require new funding. The latter will remain largely in the form of bank borrowings as it is cannot accept customer deposits.

**Liquidity and debt servicing supported to a large extent by the collection of finance receivables.** As in previous years, the Company's holding of liquid assets remained limited to its cash balance as its financial assets are largely unquoted. Cash balances rose to KWD4.8mn at end Q3 2015, representing a modest 9.5% of total assets. If the investments in murabaha receivable are to be included, this liquid asset ratio would improve to 15.4%. That said, as in previous years, a large proportion of the Company's finance receivable is short-term and this is the major component of effective liquidity. See table below for position as at end Q3 2015.

According to information provided by the Company, the maturity mismatch between the finance receivable book and repayment schedule of borrowings was positive in all maturity buckets, thus validating the Company's comfortable debt serviceability position.

MATURITY MISMATCH					
(KWDmn)	1 to 6 mths	6 to 12 mths	1 to 3 yrs	3 yrs and above	Total
Finance Rec	12.65	8.50	18.92	4.42	44.49
Borrowings	1.81	1.67	9.75	0.00	13.23
Gap	10.84	6.83	9.17	4.42	

CI's cash and quoted investment and short-term gross finance receivable to short-term debt ratio stood at a sound 2.8 times at end Q3 2015 up from 1.9 times at end 2014.

**Collection of account receivables contributed to the positive operating cash flow in 2014, while the higher disbursement of finance receivable led to a negative figure at end Q3 2015.** Cash from operating activities in 2014 was a net inflow of KWD7.5mn, which was higher than the KWD5.5mn a year earlier. This was largely contributed to the KWD8.2mn collection of finance receivable compared to the KWD1.9mn disbursement the year earlier. Net cash generated from investing activities totalled KWD194k, largely from the liquidation of murabaha receivable compared to KWD14.5k in 2013. Cash flow from financing activities on the other hand remained a cash outflow of KWD6.0mn, which was slightly lower than KWD7.5mn a year earlier.

In the first nine months of 2015, operating cash flow was a net outflow of KWD2.1mn compared to a cash inflow of KWD5.8mn in the same period last year, reflecting the growth of the finance receivable book. Finance receivable disbursed totalled KWD3.3mn compared to a collection of KWD7.7mn in the

same period last year. Cash flow from investing activities remained positive – although modest – at KWD111k. Cash flow from financing activities was a negative outflow, with the increase of borrowings to fund finance receivable growth.

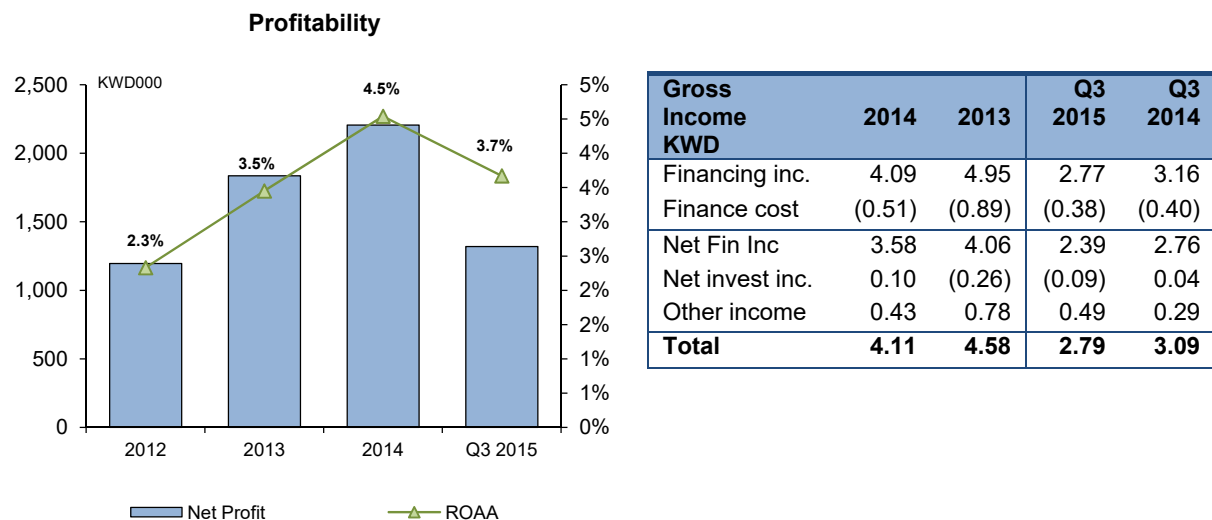
## CAPITAL BASE

**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 to profit in 2012 and achieved 53.6% growth in net profit in 2013. Despite the contraction of the financing receivable book, the Company still posted a healthy 20.1% growth in net profit for 2014.

Equity KWDmn	2014	Q3 2015
Capital+premium	31.2	31.2
Reserves	2.7	2.7
Retained Earnings	1.7	1.5
<b>Total</b>	<b>35.6</b>	<b>35.4</b>

The Company's internal capital generation has been good in recent years with the full retention of net profit. Retained earnings stood at a modest KWD1.7mn compared to the small negative KWD0.3mn at end 2013. The Company paid a cash dividend totalling KWD1.5mn for FYE 2014. This, and the decline of net profit in the first nine months of 2015 saw retained earnings declining marginally to KWD1.5mn. No capital increase is projected in the Company's financial forecast for the next five years.

## EARNINGS PERFORMANCE



**The Company posted a strong net profit growth in 2014, largely due to the substantially lower risk charge.** The Company's gross income actually contracted in 2014 from the decline of net financing income with the contraction of the finance receivable book and narrowing of the finance differential. While contribution from its investment portfolio was a positive compared to a loss a year earlier, this was modest and insufficient to cover the shortfall from net financing income. Consequently, despite operating expenses being under control and increasing by a modest 4.7% in 2014, the Company's operating profit registered an 18.6% decline, which compared unfavourably with the robust 48.9% growth a year earlier. However, thanks to the substantial reduction of provision charge from KWD1.1mn a year earlier to a small KWD0.1mn in 2014, the Company posted a 20.1% growth in net profit for 2014.

**Further contraction of gross income compounded by higher operating expense led to a sizeable YoY decline of net profit at end of the first nine months of 2015.** Gross income registered a modest YoY contraction at end of the first nine months of 2015, which was attributed to the further 13.3% decline in net financing income. Contribution from its investment portfolio turned negative in part due to the proactive impairment charge on its QFH investments, but with higher financing fees and other income, the Company was able to post a small growth of non-financing income. Nonetheless, this was still unable to cover the fall in net financing income. Operating expense on the other hand rose by 15.9% YoY due to a change to regulation regarding indemnity. This increase in operating expenses led to the 24.0% YoY decline in the Company's operating profit. Despite the lower provision charge, the Company posted a YoY decline of 23.9% in net profit at the end of the first nine months of 2015.

**Still good net profitability.** Al Manar's return on average assets (ROAA) improved in 2014 with the higher earnings, but fell back in the first nine months of 2015. However, at 3.7%, it remained good and compared favourably with some of its larger peers.

**Continued pressure on financing differential constrained growth.** Financing income contracted by 17.3% in 2014 due to the contraction of the finance receivable book, as well as the decline of financing income on average earning assets. The latter fell by a sizeable 103 basis points (bps) to 11.02% at end 2014. Financing cost was down by 52 bps, reflecting the lower borrowings. This resulted in the narrowing of the financing differential for the second consecutive year to 6.06%. That said, the continued pressure on financing differential was seen across its peers, reflecting the higher competition with the entry of financial institutions.

For the first nine months of 2015, performance of this portfolio weakened further. Notwithstanding the good growth of the finance receivable book, financing income registered a YoY decline of 12.4%. This was due to a further drop of financing income on average earning assets by 96 bps. Notwithstanding the higher borrowings, the Company's funding cost was up slightly by 1 bp. Consequently, the Company's financing differential decline by a further 63 bps in the first nine months of 2015 to 5.43%. Once again, the narrowing trend of financing differential was also seen among its peers.

## **FINANCIAL FORECASTS 2016-2020**

The Company has provided CI with a forecast for the period 2016 to 2020. This forecast is based on a number of assumptions including:

- Increasing the KFH KWD20mn line to KWD33mn in 2018 and on a revolving basis onwards.
- Investments to remain at a stable KWD10.8mn.
- Distributing 6% cash dividend in 2016 and increasing annually by 1% throughout the forecast period.

Highlights and a summary of the forecast are appended below.

**Increased lending activities, which have been revised upwards from previous forecasts, in line with projected availability of funding.** As shown in the table to the right, the asset base is projected to grow on the back of increased lending volumes. The net financing receivables portfolio is to expand by a high 62.4% over the forecast period, with the highest growth to be achieved in 2016. The latter assumed that the KFH line will be increased up to KWD33mn and on a revolving basis onwards. As availability of additional funding and the consumer finance market conditions are less certain over the longer term, finance receivable growth projections are thus considerably slower towards the end of the forecast.

<b>Asset Composition KWDmn</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Financing Receivables	48.4	60.6	69.6	74.1	78.6
Investments	10.8	10.8	10.8	10.8	10.8
Cash	1.7	1.8	1.5	1.0	1.1
Others*	0.2	0.2	0.2	0.2	0.2
<b>Total</b>	<b>61.1</b>	<b>73.4</b>	<b>82.1</b>	<b>86.1</b>	<b>90.7</b>
<small>*include Fixed Assets – 2016 &amp; 2017: KWD40k, 2018 &amp; 2019: KWD35k, 2020: KWD30k</small>					

As shown in the table to the right, the asset base is projected to grow on the back of increased lending volumes. The net financing receivables portfolio is to expand by a high 62.4% over the forecast period, with the highest growth to be achieved in 2016. The latter assumed that the KFH line will be increased up to KWD33mn and on a revolving basis onwards. As availability of additional funding and the consumer finance market conditions are less certain over the longer term, finance receivable growth projections are thus considerably slower towards the end of the forecast.

The Company's investments portfolio level and composition are projected to be maintained at the current level through the forecast period, although the Company may still liquidate the remaining stake in GFH. Needless to say, these investments will remain subject to potential volatility.

KWDmn	2016	2017	2018	2019	2020
Wakala payables	20.5	30.8	37.5	39.8	42.1
Total liabilities*	24.2	35.2	42.6	45.3	48.8
Total equity	37.0	38.2	39.6	40.8	42.0
Leverage	0.65	0.92	1.07	1.11	1.16
*include other creditors					

**Rising leverage, although remaining low for a finance company.** Borrowings to rise in line with the assumption and timing of the increase in the facility line with KFH. A modest increase is projected over the medium-term, which is perhaps a more prudent forecast in view of the certainty of the liquidity in the market over the longer term. With no other new borrowings, the Company's funding base will remain limited and concentrated.

Equity base to grow steady in line with earnings projections and an annual cash dividend payment. While modest as a percentage of share capital, the rate of dividend payment represented a fairly high dividend payout ratio, which averaged at 67.9% of earnings over the forecast period. As shown in the above table, with the rise in borrowings, the Company's leverage is projected to climb over the forecast period. Nonetheless, at 1.2 times at end 2020 it is still fairly low for a finance 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.

**Net profit forecast largely in line with the growth of finance receivable book.**

As shown in the adjoining table, financing income is expected to grow more robustly in the short-term, which largely ties in with the higher growth of finance receivables during the period. Similarly, funding cost is projected rise more sharply with the larger increase of borrowings in the period of 2016 and 2017. Both the factors above will lead to a similar trend for the growth of net financing income.

Profit and Loss KWDmn	2016	2017	2018	2019	2020
Financing Income	4.47	6.03	7.16	7.88	8.21
Funding Cost	(0.99)	(1.70)	(2.26)	(2.56)	(2.61)
Net Financing Income	3.48	4.33	4.90	5.32	5.60
Other income	1.17	1.32	1.28	1.24	1.22
Gross Income	4.65	5.65	6.18	6.56	6.82
Operating expenses	(1.71)	(1.81)	(1.90)	(1.98)	(2.04)
Operating Profit	2.94	3.84	4.28	4.58	4.78
Provision	(0.36)	(0.41)	(0.44)	(0.49)	(0.52)
<b>Net Profit</b>	<b>2.58</b>	<b>3.43</b>	<b>3.84</b>	<b>4.09</b>	<b>4.26</b>
<b>ROAA</b>	<b>4.61*</b>	<b>5.09</b>	<b>4.93</b>	<b>4.86</b>	<b>4.81</b>
<b>ROE</b>	<b>7.21</b>	<b>8.37</b>	<b>11.12</b>	<b>12.45</b>	<b>13.80</b>

\*based on total assets at end Q3 2015 of KWD50.8mn

Together with other income – including income from early settlement, rebates from vendors, issue of certificates, deal transfers, rent revenue from real estate and other revenues, and collection from written off portfolio – the Company projects gross income to increase by 21.5% in 2017 before slowing down to 14.0% in 2018, 8.6% in 2019 and 5.3% in 2020. Once again, the slowdown reflects the moderate growth rate in those years.

On the other hand, operating expenses are expected to be kept under control, increasing fairly modestly over the forecast period. Provision charge is also anticipated to remain fairly modest.

Net profitability (ROAA) projected to rise over the forecast period growing robustly in 2017 and then slow down for the remaining periods

**Higher debt repayment in the medium to long-term projected to create a small net cash outflow.** The adjoining table shows the cashflow position in December of the respective forecast years. Dividend payment is to be paid in March each year.

Cash from operation is projected to remain positive through the forecast period. For the first two years of the forecast, drawdown of funding is expected to exceed debt repayment. This position will

reverse from 2018 onwards. The lower cash flow from operations in 2020 compared to prior years largely reflects the slow rate of growth of the finance receivable book. Compounded with the annual increase in operating expenses, the Company projects a small net cash flow deficit from 2018 onwards, which will be met through cash balances.

Cashflow KWDmn	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
Cash fr operation	2.43	2.43	3.05	3.48	3.39
External funds	2.50	2.50	2.00	2.00	2.25
<b>Total Incoming Cash</b>	<b>4.93</b>	<b>4.93</b>	<b>5.05</b>	<b>5.48</b>	<b>5.64</b>
Operating expenses	(2.79)	(2.79)	(3.18)	(3.19)	(3.56)
Debt repayment	(1.59)	(1.59)	(2.15)	(2.44)	(2.39)
<b>Total Outgoing Cash</b>	<b>(4.38)</b>	<b>(4.38)</b>	<b>(5.33)</b>	<b>(5.63)</b>	<b>(5.95)</b>
<b>Net Cash Flow</b>	<b>0.55</b>	<b>0.55</b>	<b>(0.28)</b>	<b>(0.15)</b>	<b>(0.31)</b>
<b>Cumulative Cashflow</b>	<b>1.76</b>	<b>1.76</b>	<b>1.50</b>	<b>1.00</b>	<b>1.12</b>

## Conclusion

The new projections provided by management show an accelerated growth of the finance receivable book over in the next two years largely supported by a new funding line in place, as well as an additional funding line currently being sourced. While the Company has demonstrated its ability to build up its finance receivable when funding was available, growth may be constrained by the high competition in the consumer finance market. The quality of its finance receivable book is likely to be maintained supported by its good remedial actions and recoveries. The projected YoY increase in provisioning should also provide a buffer to the seasoning of the new finance receivables.

The increase in borrowings is not a major concern as leverage remains low and the Company generally matches its debt repayment with the collection of its finance receivables. The latter will remain the Company's main source of liquidity as cash balances are projected to remain at fairly modest levels as seen in previous years.

As for earnings, it should be noted that the Company has not included any revaluation impact from its FVTPL financials investments nor anticipated any further impairment of its QFH investment. Any negative impact would thus constrain growth of the bottom line, although in absolute amount, this is unlikely to be significant given the size of its investment portfolio and the proactive impairment taken thus far. A major challenge would be the stabilising financing differential. Based on projected financing income over average net finance receivable book, this rate of finance still show a steady decline, although not as sharply as seen in 2014 and in the first nine months of 2015.

All that said, the growth and success of the Company remains almost totally reliant on the availability of funding lines, as evidenced by the growth and performance seen over the past few years.



## Appendix 1

### SUPERVISION & REGULATION

Al Manar is supervised and regulated by the CBK, the CMA and by the Ministry of Commerce. In the medium-term, Al Manar plans to apply for a listing on the Kuwait Stock Exchange (KSE). 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 LEASING COMPANY K.S.C

KW60

SUMMARY RATIOS	External Audit	AUD	AUD	AUD	AUD
		09/2015	12/2014	12/2013	12/2012
<b>A . SIZE FACTORS (KWD 000)</b>					
1 . Total Assets		50,786	45,201	52,019	54,435
2 . Net Financing Receivables		34,776	31,583	39,977	39,199
3 . Total Equity		35,411	35,635	33,429	31,593
4 . Tangible Net-Worth		35,411	35,635	33,429	31,584
5 . Total Debt		13,231	6,928	12,436	19,016
6 . Net Profit		1,320	2,206	1,836	1,196
7 . Assets Under Management					
<b>B . ASSET QUALITY (%)</b>					
8 . Total Assets Growth Rate		12.35	-13.11	-4.44	13.04
9 . FR-Loss Reserve / Financing Receivables		9.40	9.59	6.67	21.65
10 . Non-Performing FR / Financing Receivables		10.11	11.08	12.60	38.86
11 . FR-Loss Reserve / Non-Performing FR		92.99	86.51	52.96	55.72
12 . Unprovided Non-Performing FR / Total Equity		0.77	1.47	7.60	27.25
13 . FR-Loss Provision Charge / Financing Receivables		-0.34	-0.43	-2.55	-1.54
<b>C . CAPITAL AND LEVERAGE</b>					
14 . Total Equity Growth Rate (%)		-0.63	6.60	5.81	3.96
15 . Total Equity / Total Assets (%)		69.73	78.84	64.26	58.04
16 . Leverage (Times)		0.43	0.27	0.56	0.72
17 . Leverage - Excluding Minority Interest (Times)		0.43	0.27	0.56	0.72
18 . Total Liabilities / Tangible Net-Worth (Times)		0.43	0.27	0.56	0.72
19 . Long-Term Debt / Total Equity (Times)		0.28	0.09	0.00	0.00
20 . Total Debt / Total Equity (Times)		0.37	0.19	0.37	0.60
<b>D . LIQUIDITY AND COVERAGE</b>					
21 . Current Ratio (Times)		6.07	5.24		
22 . Cash + QI + ST Gross FR / ST Debt (Times)		2.76	1.85	2.13	0.40
23 . Cash & Quoted Investments / Total Assets (%)		18.93	15.72	10.63	14.14
24 . Cash & Quoted Investments / Total Liabilities (%)		62.54	74.29	29.76	33.69
25 . Net Financing Receivables / Total Assets (%)		68.48	69.87	76.85	72.01
26 . Net Financing Receivables / Total Liabilities (%)		264.14	378.64	240.76	179.50
<b>E . PROFITABILITY (%)</b>					
27 . Return on Average Assets (ROAA)*		3.67	4.54	3.45	2.33
28 . Return on Average Equity (ROAE)*		4.95	6.39	5.65	3.86
29 . Funding Cost*		4.99	5.27	5.66	6.88
30 . Financing Income on Average Earning Assets*		10.06	11.02	12.05	10.35
31 . Financing Differential		5.07	5.75	6.39	3.47
32 . Non-Financing Income / Gross Income		14.26	12.81	11.39	16.39
33 . Operating Expenses / Gross Income		47.07	41.66	35.70	43.43
34 . Operating Profit Growth Rate		-38.39	-18.60	48.88	-166.26
35 . Operating Profit / Average Assets*		4.10	4.93	5.53	3.86
36 . Risk Provisioning Charge / Operating Profits		-8.80	-6.20	-37.03	-38.94
37 . Realized Income / Gross Income		100.00	100.00	100.00	100.00
38 . Dividend Payout Ratio					
<b>F . INVESTMENT</b>					
39 . Market Capitalization (KWD 000)					
40 . Share Price (KWD)					
41 . Earnings Per Share (KWD)		0.004	0.007	0.006	0.004
42 . Earnings Per Share Growth (%)		-40.16	20.13	53.57	-132.68
43 . Price / Earnings Ratio (Times)					
44 . Price / Book Ratio (Times)					
45 . Cash Dividend Per Share (KWD)					
46 . Stock Dividend Per Share (%)					
<b>G . REFERENCE DATA</b>					
. Exchange Rate (Units per USD)		0.303	0.293	0.282	0.281
. Inflation Rate (%)					

\* Annualised ratios for September 2015.



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

BALANCE SHEET - ASSETS (KWD 000)	External Audit	AUD				Growth (%)				Breakdown (%)			
	09/2015 USD 000	09/2015	12/2014	12/2013	12/2012	09/2015	12/2014	12/2013	12/2012	09/2015	12/2014	12/2013	12/2012
Cash & Banks	15,994	4,839	2,235	520	2,470	116.48	329.72	-78.94	-26.67	9.53	4.95	1.00	4.54
Net Financing Receivables	114,943	34,776	31,583	39,977	39,199	10.11	-21.00	1.99	15.25	68.48	69.87	76.85	72.01
Other Receivables													
Prepayments & Accruals									-100.00				
Investments	35,784	10,826	11,020	11,103	11,981	-1.76	-0.74	-7.33	14.85	21.32	24.38	21.34	22.01
Net Fixed Assets	117	35	47	62	44	-25.24	-24.10	41.78	144.13	0.07	0.10	0.12	0.08
Due From Associates													
Goodwill & Other Intangible Assets					9			-100.00	124.32				0.02
Other Assets	1,020	309	316	357	732	-2.16	-11.62	-51.26	162.31	0.61	0.70	0.69	1.35
<b>TOTAL ASSETS</b>	<b>167,859</b>	<b>50,786</b>	<b>45,201</b>	<b>52,019</b>	<b>54,435</b>	<b>12.35</b>	<b>-13.11</b>	<b>-4.44</b>	<b>13.04</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

**AL MANAR FINANCING AND LEASING COMPANY K.**

BALANCE SHEET - LIABILITIES (KWD 000)	External Audit	AUD				Growth (%)				Breakdown (%)			
	09/2015 USD 000	09/2015	12/2014	12/2013	12/2012	09/2015	12/2014	12/2013	12/2012	09/2015	12/2014	12/2013	12/2012
Short-Term Debt	11,514	3,484	3,842	12,436	19,016	-9.33	-69.11	-34.60	27.92	6.86	8.50	23.91	34.93
Short-Term Payables	2,105	637	1,520	5,134	2,878	-58.10	-70.39	78.41	46.69	1.25	3.36	9.87	5.29
Prepayments & Accruals	1,907	577	475	471	476	21.59	0.69	-1.07	-9.14	1.14	1.05	0.91	0.88
Long-Term Debt	32,217	9,747	3,086			215.88				19.19	6.83		
Long-Term Payables													
Reserve for Retirement Pay & Insurance													
Due To Unc. Subsidiaries & Associates	0	0	0	0	0								
Other Liabilities	3,072	930	644	548	472	44.39	17.51	16.11	13.51	1.83	1.42	1.05	0.87
<b>TOTAL LIABILITIES</b>	<b>50,816</b>	<b>15,374</b>	<b>9,566</b>	<b>18,590</b>	<b>22,842</b>	<b>60.71</b>	<b>-48.54</b>	<b>-18.61</b>	<b>28.56</b>	<b>30.27</b>	<b>21.16</b>	<b>35.74</b>	<b>41.96</b>
<b>EQUITY:</b>													
<b>Equity Attributable To Shareholders of Parent Co.</b>													
Share Capital	102,049	30,875	30,875	30,875	30,875					60.79	68.31	59.35	56.72
Share Premium	1,031	312	312	312	312					0.61	0.69	0.60	0.57
Less: Treasury Shares													
Statutory Reserve	4,935	1,493	1,493	1,266	1,266		17.95			2.94	3.30	2.43	2.33
Voluntary Reserve	3,953	1,196	1,196	1,244	1,244		-3.84			2.36	2.65	2.39	2.28
General Reserve													
Cumulative Change in Fair Value													
Gain on Sale of Treasury Shares													
Foreign Currency Translation													
Proposed Dividend													
Retained Earnings	5,049	1,527	1,751	-275	-2,111	-12.78	-736.77	-86.97	-36.16	3.01	3.87	-0.53	-3.88
<b>SUB-TOTAL</b>	<b>117,017</b>	<b>35,403</b>	<b>35,627</b>	<b>33,422</b>	<b>31,585</b>	<b>-0.63</b>	<b>6.60</b>	<b>5.81</b>	<b>3.93</b>	<b>69.71</b>	<b>78.82</b>	<b>64.25</b>	<b>58.02</b>
Minority Interest	25	8	8	8	8					0.02	0.02	0.01	0.01
<b>TOTAL EQUITY</b>	<b>117,042</b>	<b>35,411</b>	<b>35,635</b>	<b>33,429</b>	<b>31,593</b>	<b>-0.63</b>	<b>6.60</b>	<b>5.81</b>	<b>3.96</b>	<b>69.73</b>	<b>78.84</b>	<b>64.26</b>	<b>58.04</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>167,859</b>	<b>50,786</b>	<b>45,201</b>	<b>52,019</b>	<b>54,435</b>	<b>12.35</b>	<b>-13.11</b>	<b>-4.44</b>	<b>13.04</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

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

PROFIT AND LOSS ACCOUNT (KWD 000)	External Audit	AUD				Growth (%)				% of Average Total Assets			
	09/2015 USD 000	09/2015	12/2014	12/2013	12/2012	09/2015	12/2014	12/2013	12/2012	09/2015	12/2014	12/2013	12/2012
Interest Income / Financing Income	9,159	2,771	4,094	4,950	4,090	-32.31	-17.29	21.04	-5.76	5.77	8.42	9.30	7.97
Interest Expense / Financing Expense	-1,248	-378	-510	-890	-1,165	-25.96	-42.73	-23.59	5.45	-0.79	-1.05	-1.67	-2.27
<b>NET INTEREST INCOME / NET FINANCING INCOME</b>	<b>7,911</b>	<b>2,394</b>	<b>3,584</b>	<b>4,060</b>	<b>2,924</b>	<b>-33.22</b>	<b>-11.71</b>	<b>38.83</b>	<b>-9.60</b>	<b>4.99</b>	<b>7.37</b>	<b>7.63</b>	<b>5.70</b>
Fees & Commission Income			158	392	381	-100.00	-59.77	2.88	64.94		0.32	0.74	0.74
Rental Income			153	143	128	-100.00	6.86	11.99	52.42		0.31	0.27	0.25
Dividend Income	275	83							-100.00	0.17			
Foreign Exchange Income													
Investment Income	-581	-176	98	-263	-176	-279.76	-137.14	49.93	-96.29	-0.37	0.20	-0.49	-0.34
Share of Results of Unc. Subsidiaries & Associates									-100.00				
Profit on Sale of Unc. Subsidiaries & Associates													
Other Income	1,622	491	118	250	240	315.72	-52.78	4.24	148.29	1.02	0.24	0.47	0.47
<b>NON-INTEREST INCOME / NON-FINANCING INCOME</b>	<b>1,316</b>	<b>398</b>	<b>527</b>	<b>522</b>	<b>573</b>	<b>-24.41</b>	<b>0.89</b>	<b>-8.94</b>	<b>-112.60</b>	<b>0.83</b>	<b>1.08</b>	<b>0.98</b>	<b>1.12</b>
<b>GROSS INCOME</b>	<b>9,227</b>	<b>2,792</b>	<b>4,111</b>	<b>4,582</b>	<b>3,497</b>	<b>-32.09</b>	<b>-10.28</b>	<b>31.00</b>	<b>-366.14</b>	<b>5.82</b>	<b>8.46</b>	<b>8.61</b>	<b>6.82</b>
General & Administrative Expense	4,296	1,300	1,678	1,608	1,500	-22.55	4.35	7.20	-9.38	2.71	3.45	3.02	2.92
Lease / Rental Expense													
Depreciation & Amortization	47	14	34	28	18	-58.55	24.99	48.98	14.10	0.03	0.07	0.05	0.04
Other Expenses													
<b>OPERATING EXPENSES</b>	<b>4,343</b>	<b>1,314</b>	<b>1,713</b>	<b>1,636</b>	<b>1,519</b>	<b>-23.28</b>	<b>4.70</b>	<b>7.71</b>	<b>-9.15</b>	<b>2.74</b>	<b>3.52</b>	<b>3.07</b>	<b>2.96</b>
<b>OPERATING PROFIT</b>	<b>4,884</b>	<b>1,478</b>	<b>2,398</b>	<b>2,946</b>	<b>1,979</b>	<b>-38.39</b>	<b>-18.60</b>	<b>48.88</b>	<b>-166.26</b>	<b>3.08</b>	<b>4.93</b>	<b>5.53</b>	<b>3.86</b>
Provisions For Doubtful Financing Receivables	-430	-130	-149	-1,091	-770	-12.58	-86.37	41.58	14.49	-0.27	-0.31	-2.05	-1.50
Other Provisions													
<b>GROSS PROFIT</b>	<b>4,454</b>	<b>1,348</b>	<b>2,249</b>	<b>1,855</b>	<b>1,208</b>	<b>-40.09</b>	<b>21.26</b>	<b>53.54</b>	<b>-133.02</b>	<b>2.81</b>	<b>4.63</b>	<b>3.49</b>	<b>2.36</b>
Extraordinary Items	-40	-12	-20			-40.70				-0.03	-0.04		
Taxes	-51	-16	-23	-19	-13	-32.90	22.17	50.88		-0.03	-0.05	-0.04	-0.02
<b>NET PROFIT (LOSS)</b>	<b>4,363</b>	<b>1,320</b>	<b>2,206</b>	<b>1,836</b>	<b>1,196</b>	<b>-40.16</b>	<b>20.13</b>	<b>53.57</b>	<b>-132.68</b>	<b>2.75</b>	<b>4.54</b>	<b>3.45</b>	<b>2.33</b>
<b>APPROPRIATION OF SURPLUS:</b>													
Attributable To Minority Interests													
Dividends													
<b>Transfer To Equity</b>	<b>4,363</b>	<b>1,320</b>	<b>2,206</b>	<b>1,836</b>	<b>1,196</b>	<b>-40.16</b>	<b>20.13</b>	<b>53.57</b>	<b>-132.68</b>				
Bonus Shares Issued													
<b>Changes In Equity Not Through P&amp;L</b>	<b>-740</b>	<b>-224</b>	<b>2,206</b>	<b>1,836</b>	<b>1,203</b>	<b>-110.15</b>	<b>20.13</b>	<b>52.59</b>	<b>-131.88</b>				

## 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	$\frac{\text{CURRENT YEAR TOTAL ASSETS} - \text{PREVIOUS YEAR TOTAL ASSETS}}{\text{PREVIOUS YEAR TOTAL ASSETS}} \times 100$
9 . FR-LOSS RESERVE / FINANCING RECEIVABLES	$\frac{\text{FINANCING RECEIVABLES LOSS RESERVE}}{\text{FINANCING RECEIVABLES}} \times 100$
10 . NON-PERFORMING FR / FINANCING RECEIVABLES	$\frac{\text{NON PERFORMING FINANCING RECEIVABLES}}{\text{FINANCING RECEIVABLES}} \times 100$
11 . FR-LOSS RESERVE / NON-PERFORMING FR	$\frac{\text{FINANCING RECEIVABLES LOSS RESERVE}}{\text{NON PERFORMING FINANCING RECEIVABLES}} \times 100$
12 . UNPROVIDED NON-PERFORMING FR / TOTAL EQUITY	$\frac{\text{NON PERFORMING FR} - \text{FR LOSS RESERVE}}{\text{TOTAL EQUITY}} \times 100$
13 . FR-LOSS PROVISION CHARGE / FINANCING RECEIVABLES	$\frac{\text{FINANCING RECEIVABLES PROVISION CHARGE}}{\text{FINANCING RECEIVABLES}} \times 100$
C . CAPITAL AND LEVERAGE	
14 . TOTAL EQUITY GROWTH RATE (%)	$\frac{\text{CURRENT YEAR TOTAL EQUITY} - \text{PREVIOUS YEAR TOTAL EQUITY}}{\text{PREVIOUS YEAR TOTAL EQUITY}} \times 100$
15 . TOTAL EQUITY / TOTAL ASSETS (%)	$\frac{\text{TOTAL EQUITY}}{\text{TOTAL ASSETS}} \times 100$
16 . LEVERAGE (TIMES)	$\frac{\text{TOTAL LIABILITIES}}{\text{TOTAL EQUITY}}$
17 . LEVERAGE - EXCLUDING MINORITY INTEREST (TIMES)	$\frac{\text{TOTAL LIABILITIES}}{\text{TOTAL EQUITY} - \text{MINORITY INTERESTS}}$
18 . TOTAL LIABILITIES / TANGIBLE NET-WORTH (TIMES)	$\frac{\text{TOTAL LIABILITIES}}{\text{TOTAL EQUITY} - \text{GOODWILL} - \text{OTHER INTANGIBLE ASSETS}}$
19 . LONG-TERM DEBT / TOTAL EQUITY (TIMES)	$\frac{\text{LONG-TERM DEBT}}{\text{TOTAL EQUITY}}$
20 . TOTAL DEBT / TOTAL EQUITY (TIMES)	$\frac{\text{SHORT-TERM DEBT} + \text{LONG-TERM DEBT}}{\text{TOTAL EQUITY}}$
D . LIQUIDITY AND COVERAGE	
21 . CURRENT RATIO (TIMES)	$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$
22 . CASH + QI + ST GROSS FR / ST DEBT (TIMES)	$\frac{\text{CASH} + \text{QUOTED INVESTMENTS} + \text{ST GROSS FINANCING RECEIVABLES}}{\text{SHORT-TERM DEBT}}$
23 . CASH & QUOTED INVESTMENTS / TOTAL ASSETS (%)	$\frac{\text{CASH} + \text{QUOTED INVESTMENTS}}{\text{TOTAL ASSETS}} \times 100$
24 . CASH & QUOTED INVESTMENTS / TOTAL LIABILITIES (%)	$\frac{\text{CASH} + \text{QUOTED INVESTMENTS}}{\text{TOTAL LIABILITIES}} \times 100$
25 . NET FINANCING RECEIVABLES / TOTAL ASSETS (%)	$\frac{\text{NET FINANCING RECEIVABLES}}{\text{TOTAL ASSETS}} \times 100$
26 . NET FINANCING RECEIVABLES / TOTAL LIABILITIES (%)	$\frac{\text{NET FINANCING RECEIVABLES}}{\text{TOTAL LIABILITIES}} \times 100$

<b>E . PROFITABILITY (%)</b>	
27 . RETURN ON AVERAGE ASSETS (ROAA)	$\frac{\text{NET PROFIT}}{\text{AVERAGE TOTAL ASSETS}} \times 100$
28 . RETURN ON AVERAGE EQUITY (ROAE)	$\frac{\text{NET PROFIT}}{\text{AVERAGE TOTAL EQUITY}} \times 100$
29 . FUNDING COST	$\frac{\text{FINANCING EXPENSE}}{\text{AVERAGE TOTAL DEBT}} \times 100$
30 . FINANCING INCOME ON AVERAGE EARNING ASSETS	$\frac{\text{FINANCING INCOME}}{\text{AVG. (CASH \& BANKS + NET FINANCING RECEIVABLES + BONDS)}} \times 100$
31 . FINANCING DIFFERENTIAL	FINANCING INCOME ON AVERAGE EARNING ASSETS - FUNDING COST
32 . NON-FINANCING INCOME / GROSS INCOME	$\frac{\text{NON FINANCING INCOME}}{\text{GROSS INCOME}} \times 100$
33 . OPERATING EXPENSES / GROSS INCOME	$\frac{\text{OPERATING EXPENSES}}{\text{GROSS INCOME}} \times 100$
34 . OPERATING PROFIT GROWTH RATE	$\frac{\text{CURRENT YEAR OPERATING PROFIT} - \text{PREVIOUS YEAR OPERATING PROFIT}}{\text{PREVIOUS YEAR OPERATING PROFIT}} \times 100$
35 . OPERATING PROFIT / AVERAGE ASSETS	$\frac{\text{OPERATING PROFIT}}{\text{AVERAGE TOTAL ASSETS}} \times 100$
36 . RISK PROVISIONING CHARGE / OPERATING PROFITS	$\frac{\text{PROVISION CHARGE FOR DOUBTFUL FR + OTHER PROVISION CHARGES}}{\text{OPERATING PROFITS}} \times 100$
37 . REALIZED INCOME / GROSS INCOME	$\frac{\text{REALIZED INCOME}}{\text{TOTAL INCOME}} \times 100$
38 . DIVIDEND PAYOUT RATIO	$\frac{\text{CASH DIVIDENDS}}{\text{NET PROFIT}} \times 100$
<b>F . INVESTMENT</b>	
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	$\frac{\text{NET PROFIT}}{\text{WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING}}$
42 . EARNINGS PER SHARE GROWTH (%)	$\frac{(\text{CURRENT Y. EARNINGS PER SHARE} - \text{PREVIOUS Y. EARNINGS PER SHARE})}{\text{PREVIOUS Y. EARNINGS PER SHARE}} \times 100$
43 . PRICE / EARNINGS RATIO (TIMES)	$\frac{\text{END OF PERIOD SHARE PRICE}}{\text{EARNINGS PER SHARE}}$
44 . PRICE / BOOK RATIO (TIMES)	$\frac{\text{END OF PERIOD SHARE PRICE}}{(\text{TOTAL EQUITY} / \text{WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING})}$
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

# 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.