



شركة التسهيلات التجارية ش.م.ك وشركاتها التابعة
COMMERCIAL FACILITIES CO. S.A.K & Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED 31 DECEMBER 2017

2017

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His Highness Sheikh
Nawaf Al Ahmed Al Jaber Al Sabah
The Crown Prince



His Highness Sheikh
Sabah Al Ahmed Al Jaber Al Sabah
The Amir of The State of Kuwait



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THE BOARD OF DIRECTORS



**Ali Ibrahim
Marafi**
Chairman



Abdullah Saud Al-Humaidhi
Vice Chairman and
Chief Executive Officer



**Musaed Bader
Al-Sayer**
Board Member



**AlHareth Abdulrazak
Al-Khaled**
Board Member



**Khaled Mishari
Al-Khaled**
Board Member



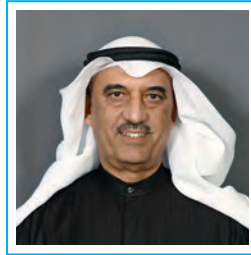
**Dr. Ayman Bader
Al-Bloushi**
Board Member



**Nasser Adel
Behbehani**
Board Member



MANAGEMENT



Abdullah S. Al-Humaidhi

Vice Chairman and
Chief Executive Officer



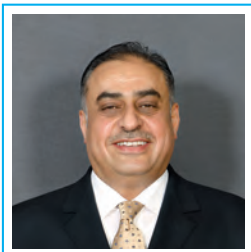
Khaled A. Al-Ali

Deputy Chief
Executive Officer



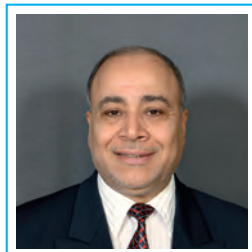
Nasser A. Al-Mannai

Assistant CEO
Marketing



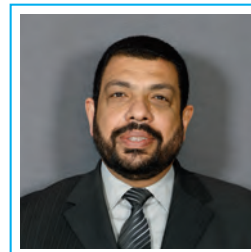
Basheer I. Habayeb

Senior Manager
Credit Department



Abdulaziz M. Shooman

Manager
Control Department



Ayman Abo Shadi

Manager
Legal Department



Abdullah A. Al-Refai

Manager
Branches Department



Varughese Abraham

Manager
IT Department



Mohammad M Al Khashti

Manager Service
Support Department



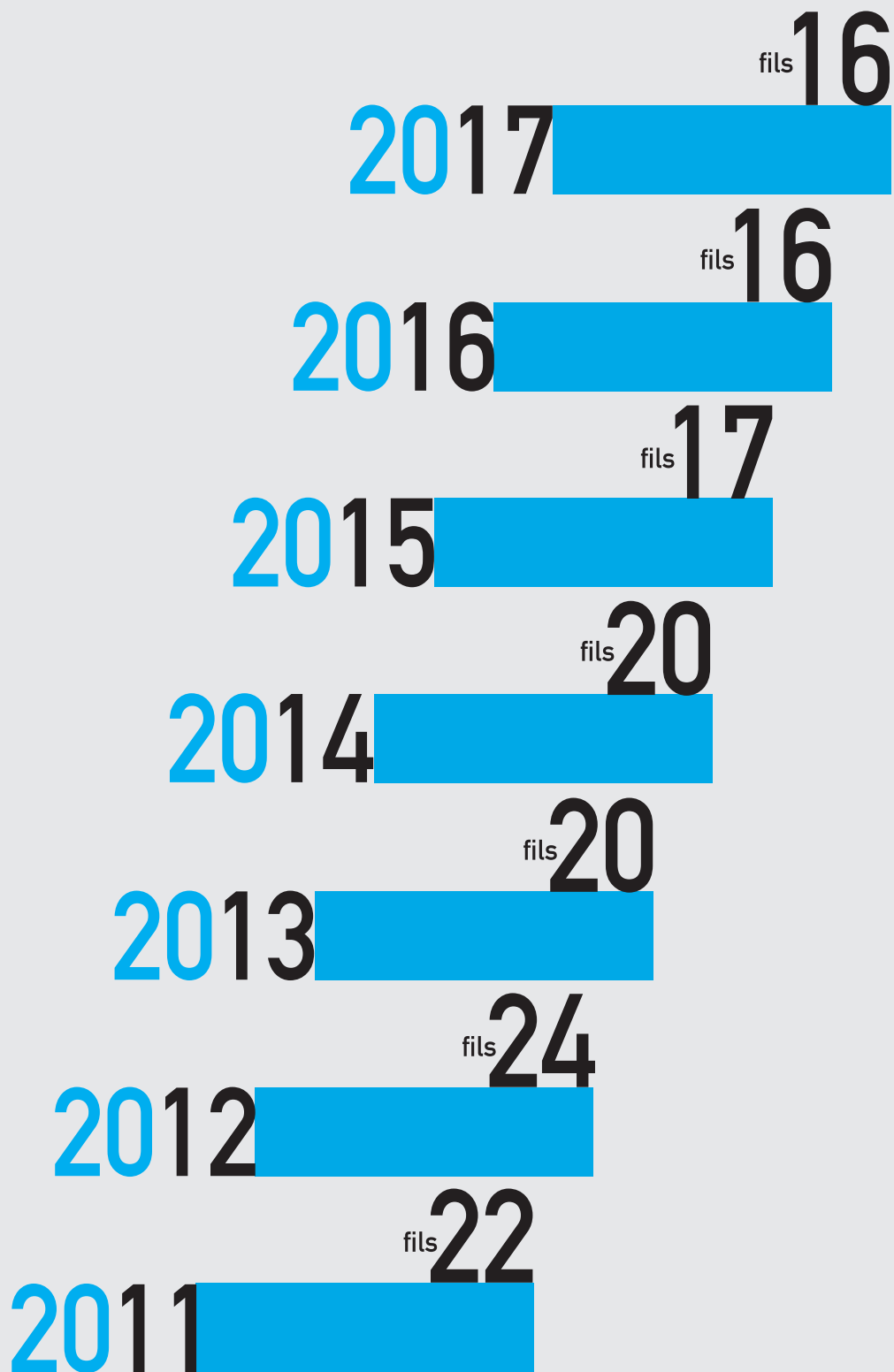
Ali J Al Mubarak

Manager
Follow Up Department

**NEVER
MISSED
A YEAR**

DIVIDENDS DISTRIBUTION

CASH DIVIDENDS DISTRIBUTION FOR THE LAST 7 YEARS





DIRECTORS REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

DEAR SHAREHOLDERS,

It is with great pride, the Board of Directors of Commercial Facilities Company presents to you the company's thirty ninth Financial Report for the year ended 31st December 2017.

The company continued its successful performance as in past years, despite a continued challenging financial environment and interest rates on the Kuwaiti Dinars remaining at a historical lows, the company was able to achieve a net profit of 8.72 million Kuwaiti Dinars. This represents a 7.8% increase compared to last year's performance. Earnings per share reached 17 fils.

In addition, the installment credit revenues reached 17.563 million Kuwaiti dinars an increase of only 6 thousands dinars.,

The increase in profits came as a result of an increase in investment profits reaching net of 3.01 million Kuwaiti dinars compared to 924 thousands Kuwaiti dinars last year, and due to an increase in interest rates for the US dollar and the Kuwaiti dinar the borrowing cost increased by one million Kuwaiti Dinars.

Staff costs increased by 467 thousands Kuwaiti dinar due to the recent change in Kuwait labor laws concerning Kuwaiti staff.

The company's consolidated financial position showed a decrease in installment credit portfolio of 3.1% and bank debt amounted to 159.51 million Kuwaiti dinars, of which 9.052 denominated in US dollars and the rest in Kuwaiti dinars.

Remuneration to key staff including executive management during the year was 478 thousands Kuwaiti dinars compared to 461 thousands Kuwaiti dinars in 2016.

As for the company funding operations, the company arranged new loans amounting to 53 million Kuwaiti Dinars. The average interest rates were 3.68% and 2.78% on the KD and the US dollar loans respectively. The Board of Directors is confident in the company's ability to further secure future funding at the best rates, reflecting the sound reputation and the credit worthiness of the company.

Moreover, the board of directors is expecting a better performance in 2018 based on its future forecast and projections as a result of the company's marketing initiatives.

Based on the company's results for 2018 the Board of Directors is pleased to propose the distribution of dividends equivalent to 16% (16 fils per share equivalent to 8,130,487 Kuwaiti Dinars) to registered shareholders as of the record date and propose a board remuneration of 105 thousand Kuwaiti Dinars (15 thousand Kuwaiti Dinars per member).

The Board of Directors would like to take this opportunity to extend its sincere thanks to all of the company's customers and to all the governmental establishments and the financial and commercial institutions that helped facilitate the company's operations. In addition the Board of directors extends its appreciation to the management and staff for their integrity and efforts in the making of another successful year.

Corporate Governance

Board Of directors

The Company is managed by a board of directors consisting of seven directors, each director having the experience, knowledge and qualification necessary to perform the functions of the Board effectively and to ensure the Board's ability to attain the long term objectives of the company. The term of the board is three years, and is renewable.

BOD members

Name	Position
Ali Ibrahim Marafi	Chairman
Abdullah Saud Al-Humaidhi	Vice Chairman and Chief Executive Officer
Musaed Bader Al-Sayer	Board Member (Independent)
AlHareth Abdulrazak Al-Khaled	Board Member
Khaled Mishari Al-KHaled	Board Member
Dr.Ayman Bader Al-Bloushi	Board Member
Nasser Adel Behbehani	Board Member (Independent)

1. Mr. Ali Ibrahim Haji Husain Marafi

Chairman

Joined the Board of Directors of Commercial Facilities Company in 1992. He is a Board Member and the Chairman of the Nomination and compensation at AL-Ahli Bank of Kuwait, The Vice Chairman of United Real Estate Company and a Board member of Arab-French Bank (Paris- Hong Kong), and he is the Chairman of Al-Ahli Bank of Kuwait- Egypt. He has experience in banking and administration for more than 32 years.

2. Mr. Abdallah Soud Abdul Aziz Al-Humaidhi

Vice Chairman and CEO

Joined the Board of Directors of Commercial Facilities Company in 1980 and appointed as a Managing Director in 1983. He is a Board Member and Honorary Treasurer of the Chamber of Commerce and Industry, the Vice Chairman of the Board of Directors and the Chairman of the investment Committee at the Public Institute for Social Security, a Board Member and the Chairman of the Corporate Governance Committee at Arab Banking Corporation (Bahrain), the Vice Chairman of the Arab Banking Corporation International (London) and a Board Member and the Chairman of the Remuneration Compensation Committee at First National Bank (Lebanon), and he is a Member of the Board of Investcorp-Bahrian .He has experience in investment and banking for more than 37 years.

3. Mr. Musaed Bader Mohammed Al-Sayer

Board Member

Joined the Board of Directors of Commercial Facilities Company in 1977. He is the Vice Chairman of the Al-Sayer Group of companies, the Chairman of Musaed Bader Al-Sayer Group of companies, a former Chairman of the Kuwait Container Company, a former Board Member of the Gulf Insurance Union and Project Management (Bahrain), and the founder of the Kuwaiti Industries Union. He has experience in commercial and investment business for more than 37 years.

4. Mr. Al- Hareth Abdul Razzak Zaid Al-Khaled

Board Member

Joined the Board of Directors of Commercial Facilities Company in 1992. He is the Chairman of the Refrigeration and Oxygen Co Ltd and Chairman of Real Estate Facilities Investment Company. He has experience in administrative and investment business for more than 27 years.

5. Mr. Khalid Mishari Al-Khalid

Board Member

Joined the Board of Directors of Commercial Facilities Company in 2010. He is a board member of the Chamber of Commerce and Industry , the Vice Chairman of the Board at Al-Khalid companies, the Vice Chairman of Loloa Co.s and a board member of the Union of aluminum factories. He has experience in commercial and investment business for more than 22 years.

6. Dr.Ayman Bader Al-Bloushi

Board Member

Joined The Board of Directors of Commercial Facilities Company in 2016. He is a Manager at the Follow-up and Coordination Department at the Public Institute for social Security. He has experience in investment and financial business for more than 18 years.

7. Mr. Nasser Adel Behbahani

Board Member

Joined The Board of Directors of Commercial Facilities Company in 2017. He is an Assistant Manager at the Corporate Financing Department at the Al-Ahli Bank of Kuwait. He has experience in investment and financial business for more than 6 years.

Authorities of the Board of Directors:

The Board of Directors has the broadest authority to manage the company and to perform the required for the management of the company according to its objectives limited only by the regulations, company's by-laws or General Assembly resolutions. BOD can sell or pledge the companies properties or provide letter's of guarantee or close loan agreement without the approval of the general assembly.

All members of the Board of Directors have the right to receive any documents or information regarding the company which will help them in performing their duties. This information is provided through the board secretary.

Tasks and responsibilities of the Board of Directors:

- Adoption of objectives, strategies and policies of the company
- Approval of the annual budget and approval of the annual financial statements
- Maintain and manage major Capital expenditure and acquiring Assets.
- Assures the Company's compliance towards policies and procedures and internal regulations
- Ensure the accuracy and integrity of the data and information to be disclosed, according to the policies

Committees of The Board of Directors**Internal Audit Committee**

Objective: Help monitor the activities of the company and insure the following:

- 1- The accuracy and validity of the financial statements.
- 2- Compliance with laws and regulations.
- 3- The independence and effectiveness of the internal and external audit.

Committee Members

Mr. Musaed Bader Al Sayer	Chairman
Mr. Al-Harith Abdul Razzaq Al-Khaild	Member
Mr. Nasser Adel Behbehani	Member
Dr. Ayman Bader Al-Bloushi	Member

Risk Committee

Objective: Identify, evaluate and measures associated risks and take necessary action to minimize and mitigate, insuring the following:

Risks inherent in the activity of the company's and the monitoring of these risks.

Assessment and review of credit, liquidity, operation and business continuity risks.

Committee Members

Dr. Ayman Bader Al-Bloushi	Chairman
Mr. Abdullah Saud Al-Humaidhi	Member
Mr. Khaled Mashary Al Khaled	Member
Mr. Nasser Adel Behbehani	Member

Investment Committee

Objective: To Support the BOD to execute the supervision responsibilities on Investment Assets and support the Executive Management to achieve the Investment plan.

Committee Members

Mr. Abdullah Saud Al Humaidi	Chairman
Mr. Ali Ibrahim Marafi	Member
Mr. AlHarith Abdulrazak Al-Khalid	Member

Nomination and remuneration Committee

Objective Recommending and nominating the positions for Board of Directors and executive management, In addition to recommendation relating to policy and procedure of granting compensation and bonuses

Committee Members

Mr. Ali Ibrahim Marafi	Chairman
Mr. Abdullah Saud Al Humaidi	Member
Mr. Khaled Mashary Al Khaled	Member
Mr. Musaed Bader Al Sayer	Member

The Below Table illustrates the numbers of Board of Directors and Board committees meetings, moreover, the attendance number of each member during the year 2016:

Meeting Members (*)	Board (7)	Audit Committee (5)	Risk Committee (4)	Investment Committee (3)	Nomination and remuneration Committee (2)
Mr. Ali Ibrahim Haji Hussein Marafi Chairman of the Board Chairman of the Nomination and remuneration Committee	7	--	--	3	2
Mr. Abdullah Saud Abdul Aziz Al - Humaidhi Vice Chairman & CEO Chairman of Investment Committee	7	--	4	3	2
Mr. Musaed Bader Mohammed Al - Sayer Board Member (Independent) Chairman of Audit Committee	5	4	--	--	2
Mr. Al-Harith Abdul Razzaq Al-Khaild	5	5	--	2	--
Mr. Khaled Mishari Al Khaled Board Member	4	--	2	--	1
Dr. Ayman Bader Al-Bloushi Board Member Chairman of Risk Committee	6	4	4	--	--
***Mr.Nasser Adel Behbehani Board Member (Independant)	5	4	3	--	--

* Number of meetings held on.

*** Joined the Board 27/03/2017

The Symbol "--" not a member in the committee

Disclosures on the Bonuses

The total amount of the bonus is 105 thousand Kuwaiti Dinars, 15 Thousand Kuwaiti Dinar for each Member.

Anti-Money Laundering and Combating Financial Terrorism (AML/CFT) Policy

To enable the company to protect its services, monitor and detect any suspicious activities, disable support for criminals and prevent them from using the financial system and to ensure compliance with regulatory requirements related to AML/CFT, Commercial Facilities Co. has developed internal policies and guidelines in accordance with the Kuwaiti Law and regulations which helps to:

- Implement Know Your Customer (KYC) principle.
- Opening of accounts and Dealing with diverse customer types.
- Staff training on the development of the fight against money laundering and financing terrorism.
- Recognizing the warning pattern of suspicious transactions and handling them.
- Dealing with Politically Exposed Persons (PEP)
- Updating data and preserving files.

Ethics and professionalism:

The entire workforce of the company is to adhere to the work ethics and professional standards of the company. All employees will be accountable in implementing and upholding these standards.

The employees are responsible for being aware and adhering strictly to the internal processes and operational rules in place in their respective departments. All employees are required to:

- Have knowledge, full understanding and complete adherence to the rules, regulations and internal processes of the company at all times
- Act in the best interest of the company in all circumstances without consideration to personal relationships
- Avoid any situation that could result in a conflict of interest. And in the case of having doubts about such a circumstance arising to immediately inform the respective department head or the company's compliance officer.
- Commit to strict upholding of confidentiality of information
- Make sure not to overstep their specified authority in conducting business and comply with the hierarchy of authorized signatories
- Take complete responsibility in delegation of tasks to others and overseeing their execution in the proper manner
- Respect the dignity and privacy of their colleagues

Social Responsibility:

The Company is aware of the importance of its social responsibilities, and it is constantly working on achieving economic and social development in general and for employees in particular. Therefore, the company had contributed 52 Thousand Kuwaiti Dinars for education, health, sport and special needs people.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Deloitte.

Deloitte & Touche
Al-Wazzan & Co.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL FACILITIES COMPANY S.A.K.P.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Commercial Facilities Company S.A.K.P. (the "Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities, under those standards, are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We identified the following key audit matters:

a) Impairment of Instalment debtors

Impairment of instalment debtors is a highly subjective area due to the level of judgement applied by management in determining provisions which is dependent on the credit risk related to those instalment debtors. Certain judgements applied by the management in accounting for impairment of instalment debtors include the identification of impairment events, the valuation of collaterals and assessment of customers that may default, and the future cash flows of instalment debtors granted.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

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Burgan-International Accountants

Due to the significance of instalment debtors and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the Note 2 accounting policies and in Note 4 to the consolidated financial statements. banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, concerning the Capital Market Authority and its related regulations during the financial year ended 31 December 2016 that might have had a material effect on the business of the Group or on its financial position.

Our audit procedures included the assessment of controls over the granting, recording and monitoring processes of instalment debtors and the impairment provisioning process to validate the operating effectiveness of the key controls in place, which identify the impaired instalment debtors and the provisions required against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operating effectively.

In addition to testing the key controls, we selected samples of instalment debtors outstanding as at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore, whether there was a requirement to calculate an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Group's management. Our selected samples also included non-performing instalment debtors, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing instalment debtors, we assessed whether the borrowers exhibit any possible default risk that may affect the repayment abilities.

b) Valuation of unquoted investment securities

The fair value of investment securities is determined through application of valuation techniques which often involve the exercise of judgment by the management and the use of assumptions and estimates, most predominantly for the instruments classified under level 2 and level 3. For these levels the fair value is subject to estimation uncertainty as significant judgment is applied by management to determine the fair value. Examples of key assumptions applied by management include pricing multiples available from comparable companies, forecast of cash flows and related discount rates, and estimated maintainable dividend. Due to significance of such investment securities carried at fair value and related estimation uncertainty, this is considered a key audit matter. The Group's policies on valuation and impairment of investment securities carried at fair values are given in Note 2 accounting policies.

As part of our audit procedures, for Level 2 and Level 3 valuations, we tested the appropriateness of the models used by the Group and the reliability of the data that was used as input to these models. We compared the models used for the valuations with the prior years and determined that the valuation models are consistently applied by the Group. We also evaluated the Group's assessment whether objective evidence of impairment exists for debt investments and where the fair value of equity investments are below cost, whether it represents a significant or prolonged decline in value. We further assessed that the main assumptions and related uncertainties are appropriately reflected in the sensitivity disclosure in Note 23 of the consolidated financial statements. Fair value disclosures for investment securities carried at fair value are presented in Notes 5 and Note 23 to the consolidated financial statements.

OTHER INFORMATION

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2017, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2017 after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

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identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AS PART OF AN AUDIT IN ACCORDANCE WITH ISAS, WE EXERCISE PROFESSIONAL JUDGMENT AND MAINTAIN PROFESSIONAL SCEPTICISM THROUGHOUT THE AUDIT. WE ALSO:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the Parent Company's Board of Directors report relating to these consolidated financial statements are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016, as amended and its executive regulations, as amended or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violation of the Companies Law No. 1 of 2016, as amended and its executive regulations, as amended or of the Memorandum of Incorporation and Articles of Association, as amended have occurred during the financial year ended 31 December 2017 that might have had a material effect on the business of the Group or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, concerning the Capital Market Authority and its related regulations during the financial year ended 31 December 2017 that might have had a material effect on the business of the Group or on its financial position.

Bader A. Al-Wazzan

License No. 62A
Deloitte & Touche
Al-Wazzan & Co.

Abdulhussain M. Al-Rasheed

License No. 67A
Rödl Middle East
Burgan-International Accountants

Kuwait 7 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 KD'000	2016 KD'000
ASSETS			
Cash and bank balances	3	28,105	39,431
Other receivables and prepayments		1,463	1,651
Instalment debtors	4	248,308	256,327
Financial assets at fair value through profit or loss	5	8,397	7,152
wAvailable-for-sale investments	5	32,525	27,999
Investments in associates	6	13,095	13,030
Investment properties	8	4,239	4,200
Property and equipment	9	2,263	2,243
TOTAL ASSETS		338,395	352,033
LIABILITIES AND EQUITY			
Liabilities			
Trade creditors and accrued liabilities	10	5,797	5,455
Term loans	11	159,506	174,353
Provision for staff indemnity		4,404	4,227
Total liabilities		169,707	184,035
EQUITY			
Share capital	12	53,676	53,676
Share premium		1,433	1,433
Legal reserve	13	48,344	47,421
Voluntary reserve	14	48,093	48,093
Fair value reserve		3,837	3,533
Foreign currency translation reserve		754	1,016
Land revaluation reserve		915	852
Treasury shares	15	(11,209)	(11,189)
Gain on sale of treasury shares		14	14
Retained earnings		22,809	23,149
Equity attributable to shareholders of the Parent Company		168,666	167,998
Non-controlling interests		22	-
TOTAL EQUITY		168,688	167,998
TOTAL LIABILITIES AND EQUITY		338,395	352,033

Ali Ibrahim Marafi
Chairman

Abdallah Saud Abdulaziz Al-Humaidhi
Vice Chairman and CEO

The accompanying notes 30 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 KD'000	2016 KD'000
Income from instalment credit		17,563	17,557
Share of results of associates	6	583	576
Other income		1,020	916
Rental income from investment in property		208	280
Net gains from investments	5	3,010	924
Net foreign exchange gains		367	-
Change in fair value of investment properties	8	39	(146)
Total other income		5,227	2,550
Borrowing costs		(5,837)	(4,806)
Staff costs and related expenses		(3,033)	(2,566)
General and administrative expenses		(1,231)	(936)
Net foreign exchange loss		-	(212)
Total other expenses		(10,101)	(8,520)
Profit before provision for credit losses and impairment losses		12,689	11,587
Provision for doubtful debts, net of released amount	4	(3,285)	(2,763)
Impairment losses on available-for-sale investments		(178)	(274)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' remuneration		9,226	8,550
KFAS	16	(92)	(86)
NLST and Zakat	17	(312)	(272)
Directors' remuneration	18	(105)	(105)
Profit for the year		8,717	8,087
Attributable to:			
Shareholders of the Parent Company		8,715	8,087
Non-controlling interests		2	-
		8,717	8,087
Earnings per share	19	17 Fils	16 Fils

The accompanying notes 30 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	Note	2017 KD'000	2016 KD'000
Profit for the year		<u>8,717</u>	<u>8,087</u>
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Revaluation gain/(loss) on land	9	63	(47)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange (loss)/gain		(262)	67
Available-for-sale investments			
Change in fair value of available-for-sale investments		126	336
Impairment of available-for-sale investments transferred to the consolidated statement of profit or loss		178	274
Other comprehensive income for the year		<u>105</u>	<u>630</u>
Total comprehensive income for the year		<u>8,822</u>	<u>8,717</u>
Attributable to:			
Shareholders of the Parent Company		8,820	8,717
Non-controlling interests		2	-
		<u>8,822</u>	<u>8,717</u>

The accompanying notes 30 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium	Legal reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Land revaluation reserve	Treasury shares	Gain/ (loss) on sale of treasury shares	Retained earnings	Total	Non Controlling interests	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 31 December 2015	53,676	1,433	46,566	48,093	2,923	949	899	(10,945)	47	24,586	168,227	-	168,227
Profit for the year	-	-	-	-	-	-	-	-	-	8,087	8,087	-	8,087
Revaluation loss on land	-	-	-	-	-	-	(47)	-	-	-	(47)	-	(47)
Foreign exchange gains	-	-	-	-	-	67	-	-	-	-	67	-	67
Available-for-sale investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of available-for-sale investments	-	-	-	-	336	-	-	-	-	-	336	-	336
Impairment of available-for-sale investments transferred to the consolidated statement of profit or loss	-	-	-	-	274	-	-	-	-	-	274	-	274
Total comprehensive income for the year	-	-	-	-	610	67	(47)	-	-	8,087	8,717	-	8,717
Dividends	-	-	-	-	-	-	-	-	-	(8,669)	(8,669)	-	(8,669)
Purchase of treasury shares	-	-	-	-	-	-	-	(305)	-	-	(305)	-	(305)
Sale of treasury shares	-	-	-	-	-	-	-	61	(33)	-	28	-	28
Transfer to reserves	-	-	855	-	-	-	-	-	-	(855)	-	-	-
Balance at 31 December 2016	53,676	1,433	47,421	48,093	3,533	1,016	852	(11,189)	14	23,149	167,998	-	167,998
Profit for the year	-	-	-	-	-	-	-	-	-	8,715	8,715	2	8,717
Revaluation gain on land	-	-	-	-	-	-	63	-	-	-	63	-	63
Foreign exchange gains	-	-	-	-	-	(262)	-	-	-	-	(262)	-	(262)
Available-for-sale investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of available-for-sale investments	-	-	-	-	126	-	-	-	-	-	126	-	126
Impairment of available-for-sale investments transferred to the consolidated statement of profit or loss	-	-	-	-	178	-	-	-	-	-	178	-	178
Total comprehensive income for the year	-	-	-	-	304	(262)	63	-	-	8,715	8,820	2	8,822
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	20	20
Dividends (See note 18)	-	-	-	-	-	-	-	-	-	(8,132)	(8,132)	-	(8,132)
Purchase of treasury shares	-	-	-	-	-	-	-	(20)	-	-	(20)	-	(20)
Transfer to reserves	-	-	923	-	-	-	-	-	-	(923)	-	-	-
Balance at 31 December 2017	53,676	1,433	48,344	48,093	3,837	754	915	(11,209)	14	22,809	168,666	22	168,688

The accompanying notes 30 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	2017	2016
Note	KD'000	KD'000
OPERATING ACTIVITIES		
Profit before contribution to KFAS, NLST, Zakat and Directors' remuneration	9,226	8,550
Adjustments for:		
Interest income	(973)	(832)
Provision for doubtful debts, net of released amount	3,285	2,763
(Increase)/decrease in fair value of financial assets at fair value through profit or loss	(1,571)	571
Loss/ (Gain) on sale of financial assets at fair value through profit or loss	130	(97)
Gain on sale of available-for-sale investments	(119)	(171)
Impairment loss on available-for-sale investments	178	274
Foreign currency exchange (gain)/ loss on investment securities	(87)	71
Dividend income	(1,449)	(1,227)
Share of results of associates	(583)	(576)
Change in fair value of investment properties	(39)	146
Depreciation	49	48
Provision for staff indemnity	568	118
	<u>8,615</u>	<u>9,638</u>
Decrease/(increase) in other receivables and prepayments	208	(272)
Decrease/(increase) in instalment debtors	4,734	(5,469)
Decrease in trade creditors and accrued liabilities	(167)	(1,580)
Cash from operations	<u>13,390</u>	<u>2,317</u>
Interest received	973	832
Dividends received	1,449	1,227
Staff indemnity paid	(391)	(36)
Net cash from operating activities	<u>15,421</u>	<u>4,340</u>

The accompanying notes 30 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

YEAR ENDED 31 DECEMBER 2017

	2017	2016
Note	KD'000	KD'000
INVESTING ACTIVITIES		
Decrease/(increase) in term deposits	2,436	(6,650)
Purchase of financial assets at fair value through profit or loss	(420)	(179)
Proceeds from sale of financial assets at fair value through profit or loss	616	685
Purchase of available-for-sale investments	(5,979)	(5,364)
Proceeds from sale of available-for-sale investments	1,523	630
Dividends from associates	518	465
Purchase of investment in properties	-	(2,607)
Purchase of property and equipment	(6)	(46)
Proceeds from sale of property and equipment	-	1
Net cash used in investing activities	(1,312)	(13,065)
FINANCING ACTIVITIES		
Net proceeds from term loans	(14,847)	20,542
Dividends paid	(8,132)	(8,570)
Purchase of treasury shares	(20)	(305)
Sale of treasury shares	-	28
Net cash (used in)/ from financing activities	(22,999)	11,695
Net (decrease)/ increase in cash and cash equivalents	(8,890)	2,970
Cash and cash equivalents at beginning of the year	18,975	16,005
Cash and cash equivalents at end of the year	10,085	18,975
3		

The accompanying notes 30 to 63 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Commercial Facilities Company – S.A.K.P. (“the Parent Company”) was incorporated on 16 January 1977 in accordance with the Commercial Companies Law in the State of Kuwait. The Company’s shares were listed on the Kuwait Stock Exchange on 29 September 1984.

The Parent Company is regulated by the Central Bank of Kuwait (“CBK”) and the Kuwait Capital Market Authority (“CMA”).

The Parent Company and its subsidiaries (collectively “the Group”) have been established to perform the following objectives within and outside the State of Kuwait:

- Providing short and medium term loans to individuals and entities with the aim of financing purchase of vehicles, equipment and home appliances.
- Financing consumer products of raw materials, manufactured or semi-manufactured.
- Providing short, medium and long term loans to individuals to finance the purchase of land and properties.
- Providing operating or financing lease for vehicles and equipment.
- Providing necessary guarantees related to the Parent Company objectives.
- Establishing companies, associated with the original company, specialised in marketing to collaborate with products’ agents and insurance companies in return for commission or discount that correlate with the volume of sales and insurance achieved with the agent.
- Investing in real estate, industrial, agricultural and other economic sectors through participation in the establishment of specialised companies or the purchase of their shares.
- Purchasing and selling of financial securities such as shares and bonds for the Parent Company’s account being a part of the Parent Company’s investment portfolio.
- Acting as intermediary in managing loans and syndicated loans on commission basis.
- Managing investment portfolios on behalf of others on commission basis.

The Parent Company cannot open current or saving accounts for others, accept deposits, open letters of credit or represent foreign banks. However, without violating this restriction, the Parent Company can have an interest in or collaborate, by all means, with organisations dealing and involved in similar businesses or those that can support and help achieve its objectives within or outside the State of Kuwait and also has the right to purchase these organisations or make them affiliated entities.

The address of the Parent Company’s registered office is P.O. Box 24284, Safat 13103, State of Kuwait.

These consolidated financial statements were authorized for issue by the Board of Directors on 7 February 2018.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the International Accounting Standard (IAS) 39: Financial Instruments: Recognition and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement' requirement for collective provision, which has been replaced by CBK's requirement for a minimum general provision as described under the accounting policies for impairment and uncollectibility of financial assets.

The consolidated financial statements have been prepared under the historical cost basis of measurement except for the measurement at fair value of financial assets classified as fair value through profit or loss, available-for-sale investments, investment properties and land.

The consolidated financial statements are presented in Kuwaiti Dinars which is the functional currency of the Parent Company, rounded to the nearest thousands, except when otherwise stated.

2.2 New standards, interpretations and amendments effective from 1 January 2017

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.3 New standards and interpretations not yet adopted

The following IFRS and Interpretations have been issued but are not yet effective and have not been early adopted by the Group. The Group intends to adopt them when they become effective.

IFRS 9: Financial Instruments

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has determined the Date of Initial Application for IFRS 9 to be 1 January 2018. The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening consolidated statement of financial position at 1 January 2018. The Group will not restate the comparatives as permitted by IFRS 9.

a. Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through other comprehensive income, with no subsequent recycling to consolidated statement of income. This designation is also available to non-trading equity instrument holdings on date of transition.

The adoption of this standard will have an impact on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities.

b. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment are intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Group is developing and testing the operating models and methodologies for the calculation of ECL. The Group continues to revise, refine and validate the impairment models and related process controls in advance of 31 March 2018 reporting.

c. Transition impact:

Upon adoption of IFRS 9 the Group expects certain changes in classification of financial assets and related reclassifications between retained earnings and fair value reserve. The Group does not expect a material impact on equity due to changes in classification of financial assets.

The Group will be in a position to determine the potential impact of ECL provision during the quarter ending 31 March 2018 after the CBK advises the basis on which the IFRS 9 ECL provision will be calculated. The Group will abide by CBK regulations in this regard.

d. Financial instruments: disclosures (IFRS 7)

IFRS 7 Financial Instruments: Disclosures has been amended to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cashflows with customers. The standard is not expected to have any material impact on the financial position or performance of the Group.

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is in the process of evaluating their

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

effect and does not expect any significant impact on adoption of this Standard.

Adoption of other new or amended Standards is not expected to have any material effect on the financial position or financial performance of the Group. Additional disclosures will be made in the financial statements when these Standards become effective.

2.4 Basis of consolidation

The consolidated financial statements comprise the Parent Company and its subsidiaries (collectively "the Group") as set out in note 7.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements,
- The Group's voting rights and potential voting rights.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Interests in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest. Non-controlling interest in the acquiree is measured at the proportionate share of the recognized amount of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Parent Company.

Loss of control

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in the consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2.5 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows include cash on hand, bank balances and short-term deposits with an original maturity of three months or less, net of due to banks.

2.6 Financial instruments

Classification

In the normal course of business the Group uses financial instruments, principally cash and bank balances, other receivables, instalment debtors, financial assets at fair value through profit or loss, available-for-sale investments, due to banks, trade creditors and accrued liabilities and term loans. In accordance with IAS 39, the Group classifies its financial instruments as "financial assets at fair value through profit or loss", "loans and receivables", "assets-available-for sale" or "financial liability other than at fair value through profit or loss". Management determines the appropriate classification of each instrument at the time of acquisition.

Recognition and de-recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Group receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of profit or loss, or in consolidated statement of profit or loss and other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

A financial asset is de-recognised (in whole or in part) where:

- the contractual rights to receive cash flows from the assets have expired, or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Measurement

All financial assets and liabilities are initially measured at fair value of the consideration given plus transaction costs except that for financial assets classified as financial assets at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

On subsequent measurement, financial assets classified as "financial assets at fair value through profit or loss" are measured and carried at fair value. Realised and unrealised gains/ losses arising from changes in fair value are included in the consolidated statement of profit or loss. "Loans and receivables" are carried at amortised cost using the effective yield method, less any provision for impairment. Those classified as "available for sale investments" are subsequently measured at fair value until the investment is sold or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated statement of profit or loss for the year.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method, less any provision for impairment.

Cash and cash equivalents, Other receivables and Instalment debtors are classified as "loans and receivables".

Financial assets at fair value through profit or loss

Financial assets classified as "at fair value through profit or loss" are divided into two sub categories: financial assets held for trading, and those designated at fair value through statement of profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. Derivatives are classified as "held for trading" unless they are designated as hedges and are effective hedging instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-sale investments

Available-for-sale investments are non-derivative investments that are not designated in any another category of financial assets.

After initial recognition, investments which are classified as available-for-sale are measured at fair value or at cost if fair value cannot be reliably measured. Gains and losses arising from subsequent changes in fair value other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in profit or loss and other comprehensive income, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in profit and loss and other comprehensive income is included in the consolidated statement of profit or loss for the year.

Financial liabilities other than at fair value through profit or loss

Financial liabilities "other than at fair value through profit or loss" are measured at amortised cost using the effective interest rate method.

2.7 Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting right.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The Group recognises in the consolidated statement of profit or loss its share of the total recognised profit or loss of the associate from the date that influence effectively commences until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investments. Adjustments to the carrying amount may also be necessary for changes in Group's share in the associate arising from changes in the associate's equity and other comprehensive income. The Group's share of those changes is recognised directly in equity or in other comprehensive income as appropriate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill within the carrying amount of the associate.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of profit or loss.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.8 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statement of profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An investment properties are derecognised upon disposal or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

2.9 Property and equipment

Property and equipment (except land) are carried at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment (except land) are depreciated on a straight-line basis over their estimated economic useful lives, which are as follows:

	Years
Building	20
Furniture, equipment and others	3-5
Motor vehicles	4

Depreciation commences when the assets are ready for their intended use. The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date, with effect of any changes in estimate accounted for on prospective basis.

These assets are reviewed periodically for impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of profit or loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Land is stated at revalued amount as determined by independent valuations undertaken every year. Any revaluation increase arising on the revaluation of land is credited to the land revaluation reserve, except to the extent that it reverses a revaluation decrease for the land previously recognised as an expense, in which case the increase is credited to the consolidated statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land is charged as an expense to the extent that it exceeds the balance, if any, held in the land revaluation reserve relating to a previous revaluation of the land. The land revaluation reserve will be directly transferred to retained earnings when asset is disposed.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

2.10 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Post-employment benefits

The Group provides post-employment benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Group makes contributions to a government scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

2.12 Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the cost of the shares reacquired is charged to equity. When the treasury shares are reissued, gains are credited to a separate account in equity (gain on sale of treasury shares), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.13 Accounting for leases

Where the Group is the lessee

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

2.14 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and.

Level 3 - inputs are unobservable inputs for the asset or liability.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.15 Impairment

2.15.1. Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss.

Financial assets measured at amortised cost

The amount of impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective yield. Losses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are recognised in the consolidated statement of profit or loss and reflected in an allowance account against instalment debtors. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

In addition, in accordance with CBK instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provisions is made.

Available-for-sale investments

In the case of available-for-sale investments, a significant or prolonged decline in the fair value of investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income, is recognised in the consolidated statement of profit or loss. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

2.15.2. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market rates and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.16 Revenue recognition

Interest income from instalment credit

Interest rate from instalment credit is included at the outset in the lending agreement with the customer. The customer repays the debt in equal instalments over the period of the agreement. Interest income from instalment credit is recognised over the period of the agreement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Revenue recognition (Continued)

using the effective interest method. Fees which are considered an integral part of the effective yield of a financial asset are recognised using effective yield method. Once an instalment credit has been written down as a result of an impairment loss, the related interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commission income

Commission income is recognised equally over the period of the contract to which the commission relates. Income relating to future periods is treated as deferred income and is included in the consolidated statement of financial position as a deduction from the gross value of the instalment debtors. Fee income earned from services provided over a period of time is recognised over the period of service.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Other interest income

Other interest income is recognized on effective yield basis. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows and on the amount net of impairment for the purpose of measuring the impairment loss.

2.17 Foreign currencies

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Any resultant gains or losses are taken to the consolidated statement of profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the year, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in the consolidated statement of profit or loss and other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in the consolidated statement of profit or loss and other comprehensive income.

2.18 Contingent liabilities and contingent assets

Contingent assets are not recognised as an asset till realization becomes virtually certain. Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated.

2.19 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

3. CASH AND BANK BALANCES

	2017	2016
	KD'000	KD'000
Cash on hand	2	2
Bank balances	10,083	4,973
Term deposits	18,020	34,456
Cash and bank balances	28,105	39,431
Less: Deposits with original maturity over three months	(18,020)	(20,456)
Cash and cash equivalents as per consolidated statement of cash flows	10,085	18,975

The Group's deposits with local banks denominated in KD amount to KD Nil (2016: KD 17,000 thousand) and those denominated in USD and Lebanese Pound with foreign banks based in the Middle East amount to KD 18,020 thousand equivalent (2016: KD 17,456 thousand equivalent). These deposits yield interest ranging from 4.50% to 6.45% (2016: 1.13% to 6.45%) per annum.

4. INSTALMENT DEBTORS

	2017	2016
	KD'000	KD'000
Commercial loans	17,374	16,914
Personal loans	283,910	288,652
	301,284	305,566
Less: deferred income	(26,586)	(26,118)
	274,698	279,448
Less: provision for credit losses – specific	(23,978)	(20,622)
– general	(2,412)	(2,499)
	248,308	256,327

At 31 December 2017, bad instalment debtors amounted to KD 19,701 thousand (2016: KD 16,409 thousand), which are fully provided.

Movement in the provision for credit loss is as follows:

	2017			2016		
	Specific KD'000	General KD'000	Total KD'000	Specific KD'000	General KD'000	Total KD'000
Balance at 1 January	20,622	2,499	23,121	17,905	2,459	20,364
Written off	(16)	-	(16)	(6)	-	(6)
Charged to consolidated statement of profit or loss	3,372	(87)	3,285	2,723	40	2,763
Balance at 31 December	23,978	2,412	26,390	20,622	2,499	23,121

Provision for general credit losses are made in accordance with CBK regulations (See note 2).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

4. INSTALMENT DEBTORS (CONTINUED)

The instalment debtors are entirely in the State of Kuwait. Repayments due from instalment debtors are as follows:

	2017	2016
	KD'000	KD'000
Due within one year	126,924	125,237
Due after one year	174,360	180,328
	<u>301,284</u>	<u>305,565</u>

The average interest rate on instalment debtors for the year 31 December 2017 is 4.37% (2016: 4.24%) per annum. The Group has pledged customer contracts with a carrying amount of KD 230,801 thousand (2016: KD 222,157 thousand) as collaterals against borrowings (See note 11).

5. INVESTMENT SECURITIES

Financial assets at fair value through profit or loss ("FVTPL")

	2017	2016
	KD'000	KD'000
Opening cost at 1 January	8,777	9,186
Unrealised losses	(1,625)	(1,054)
Opening fair value	7,152	8,132
Purchases	420	179
Sales	(616)	(685)
Realised (losses)/ gains on sales	(130)	97
Changes in fair value through the consolidated statement of profit or loss	1,571	(571)
Closing fair value at 31 December	<u>8,397</u>	<u>7,152</u>

All financial assets at FVTPL are located in the State of Kuwait.

At 31 December 2017 and 2016, the entire amount of financial assets at FVTPL represent held for trading investments.

Available-for-sale investments

	2017	2016
	KD'000	KD'000
Opening cost at 1 January	24,465	19,839
Unrealised gains at 1 January	3,534	2,923
Opening fair value at 1 January	27,999	22,762
Unrealised exchange loss	(175)	(4)
Purchases	5,979	5,364
Sales - proceeds	(1,523)	(630)
- realised gain on sales	119	171
Impairment losses	(178)	(274)
Changes in fair value	304	610
Closing fair value at 31 December	<u>32,525</u>	<u>27,999</u>
Investments carried at fair value	32,485	27,087
Investments carried at cost	40	912
	<u>32,525</u>	<u>27,999</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

The geographical concentration of investments classified as available-for-sale at the reporting date are as follows:

	2017	2016
	KD'000	KD'000
Outside Kuwait	22,454	18,585
Kuwait	10,071	9,414
	<u>32,525</u>	<u>27,999</u>

It was not possible to reliably measure the fair value of certain available-for-sale investments due to lack of reliable measures to determine the fair value of such investments. Accordingly they are stated at cost less impairment losses, if any. The Group has recognized impairment losses of KD 178 thousand (2016: KD 274 thousand) in the consolidated statement of profit or loss.

Net gains from investments

	2017	2016
	KD'000	KD'000
Realised gain on sale of available-for-sale investments	119	171
Realised (loss)/gain on sale of financial assets at fair value through profit or loss	(130)	97
Increase/(decrease) in fair value of financial assets at fair value through profit or loss	1,571	(571)
Dividend income	1,450	1,227
	<u>3,010</u>	<u>924</u>

6. INVESTMENTS IN ASSOCIATES

Details of the investment in associated companies at 31 December are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest 2017	Proportion of ownership interest 2016	Principal activity
Real Estate Facilities Investment Company K.S.C. (Closed)	Kuwait	26.43%	26.43%	Investment in real estate
Priority Automobile Company K.S.C. (Closed)	Kuwait	44.56%	44.56%	Renting and leasing of luxury cars

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

6. INVESTMENTS IN ASSOCIATES (CONTINUED)

The summarised financial information of the Group's associates is set out below:

	2017	2016
	KD'000	KD'000
Total current assets	3,476	5,648
Total non-current assets	49,331	46,891
Total assets	52,807	52,539
Total current liabilities	(928)	(1,229)
Total non-current liabilities	(12,301)	(11,967)
Total liabilities	(13,229)	(13,196)
Net assets	39,578	39,343
Group's share of associates' net assets	13,095	13,030
Revenues	10,567	9,715
Profit for the period	1,865	1,815
Group's share of results of associates	583	576

Summarised financial information in respect of each of the Group's associates is set out below:

	2017		2016	
	Real Estate Facilities Company K.S.C. (Closed)	Priority Automobile Company K.S.C. (Closed)	Real Estate Facilities Company K.S.C. (Closed)	Priority Automobile Company K.S.C. (Closed)
	KD'000	KD'000	KD'000	KD'000
Current assets	1,602	1,874	1,006	4,642
Non-current assets	32,948	16,383	30,542	16,349
Total assets	34,550	18,257	31,548	20,991
Current liabilities	(358)	(570)	(524)	(705)
Non-current liabilities	(3,044)	(9,257)	(36)	(11,931)
Total liabilities	(3,402)	(9,827)	(560)	(12,636)
Net assets	31,148	8,430	30,988	8,355
Group's share of associates' net assets	8,232	3,757	8,468	4,562
Revenues	1,752	8,815	1,711	8,004
Profit for the period	1,368	497	1,286	529
Group's share of results of associates	362	221	340	236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

7. SUBSIDIARIES

The subsidiaries of the Group as at 31 December are as follows:

Name of subsidiary	% of ownership and voting power		Country of incorporation	Principal activity
	2017	2016		
First Real Estate Facilities Company W.L.L.	99%	99%	Kuwait	Real Estate
Tas-hilat Rating and Collection Company K.S.C.C.	97%	97%	Kuwait	Collection
Farwa Real-Estate Company W.L.L.	98%	98%	Kuwait	Real Estate

8. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2017	2016
	KD'000	KD'000
Balance at the beginning of the year	4,200	1,739
Purchase of investment property	-	2,607
Change in fair value of investment properties	39	(146)
Balance at the ending of the year	4,239	4,200

The fair value of the Group's investment properties has been arrived at on the basis of valuations carried out on the respective dates by independent appraisers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on market approach. In estimating the fair values of the properties, the highest and the best use of the property is its current use. The Group's investment properties is included in Level 3 of fair value hierarchy as at 31 December 2017 and 31 December 2016 and is located in Saudi Arabia and Kuwait.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

9. PROPERTY AND EQUIPMENT

	Land at fair value	Building	Furniture, Equipment and Others	Motor vehicles	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Cost or fair value					
Balance at 31 December 2015	2,184	499	2,531	9	5,223
Additions	-	-	46	-	46
Disposals	-	-	(1)	-	(1)
Revaluation	(47)	-	-	-	(47)
Balance at 31 December 2016	2,137	499	2,576	9	5,221
Additions	-	-	6	-	6
Revaluation	63	-	-	-	63
Balance at 31 December 2017	2,200	499	2,582	9	5,290
Accumulated depreciation					
Balance at 31 December 2015	-	499	2,428	3	2,930
Charge for the year	-	-	48	-	48
Balance at 31 December 2016	-	499	2,476	3	2,978
Charge for the year	-	-	49	-	49
Balance at 31 December 2017	-	499	2,525	3	3,027
Carrying amount					
As at 31 December 2017	2,200	-	57	6	2,263
As at 31 December 2016	2,137	-	100	6	2,243

The fair value of the Group's land has been arrived at on the basis of valuations carried out yearly by independent appraisers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on market approach. In estimating the fair values of the land, the highest and the best use of the land is its current use. There has been no change to the valuation techniques during the year. The Group's land is included in Level 3 of fair value hierarchy as at 31 December 2017 and 31 December 2016.

10. TRADE CREDITORS AND ACCRUED LIABILITIES

	2017	2016
	KD'000	KD'000
Trade creditors	1,700	1,537
KFAS payable	92	86
National Labour Support Tax payable	227	195
Zakat payable	95	88
Other accrued liabilities	3,683	3,549
	<u>5,797</u>	<u>5,455</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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II. TERM LOANS

	2017	2016
	KD'000	KD'000
Loans denominated in KD	150,454	135,708
Loans denominated in USD	9,052	38,645
	<u>159,506</u>	<u>174,353</u>
The repayment of term loans are due as follows:		
	2017	2016
	KD'000	KD'000
Due within one year	69,093	77,469
Due after one year	90,413	96,884
	<u>159,506</u>	<u>174,353</u>

During the year, the Group obtained new KD loans amounting to KD 53 million (2016: KD 67 million) and USD loan amounting to USD Nil (2016: USD 50 million).

The weighted average interest rate on KD loans outstanding at 31 December 2017 was 3.68% per annum and on USD loans was 2.78% per annum (31 December 2016: 3.47% per annum and 2.42% per annum).

The Group's outstanding term loans at 31 December 2017 are borrowed under floating rate agreements. The Group has pledged customer contracts amounting to KD 230,801 thousand (2016: KD 222,157 thousand) as security over 18 term loans (2016: 16 term loans) with balances outstanding of KD 159,506 thousand (2016: KD 159,022 thousand).

12. SHARE CAPITAL

Share capital comprises of 536,763,720 authorised and issued shares of 100 fils (2016: 536,763,720 authorised and issued shares of 100 fils) each fully paid in cash.

13. LEGAL RESERVE

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

14. VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of the profit before KFAS, NLST Zakat and Directors' remuneration is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer. There are no restrictions on distributions from the voluntary reserve. The shareholders' annual general assembly held on 22 April 2014 approved to discontinue any further transfers to the voluntary reserve from 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

15. TREASURY SHARES

	2017	2016
Number of shares purchased (000's)	121	1,824
Cost of shares purchased (KD'000)	20	305
Number of shares sold (000's)	-	150
Market value of total treasury shares (KD'000)	4,863	4,387
Percentage of issued shares	5.33%	5.31%
Total number of shares (000's)	28,608	28,487

The Parent Company's retained earnings, equivalent to the cost of treasury shares on the date of the consolidated financial statements, are not available for distribution as long as these treasury shares are held by the Parent Company. The treasury shares are not mortgaged.

16. CONTRIBUTION TO KFAS

This represents contribution to the Kuwait Foundation for the Advancement of Science ("KFAS") computed at 1% of profit for the year after transfer to statutory reserve.

17. NLST AND ZAKAT

This represents provision for National Labour Support Tax ("NLST") is computed at 2.5% of profit for the year after transfer to statutory reserve.

Zakat represents tax payable to Kuwait's Ministry of Finance under Zakat Law No.46 of 2006.

18. ANNUAL GENERAL ASSEMBLY, PROPOSED DIVIDENDS AND DIRECTORS' REMUNERATION

- a) The shareholders' annual general assembly held on 16 April 2017 approved the audited consolidated financial statements of the Group for the year ended 31 December 2016.
- b) Subject to the requisite consent and approval of the annual general assembly, the Board of Directors propose to:
 - i) Distribute a cash dividend of 16 fils per share (2016: 16 fils per share) of the paid-up capital at 31 December 2017 to the shareholders on record at the date of the general assembly amounting to KD 8,130 thousand (2016: KD 8,132 thousand).
 - ii) Pay directors non-executive remuneration of KD 105 thousand (2016: KD 105 thousand). This is within the maximum amount provided for by the Companies Law No. 1 of 2016.

19. EARNINGS PER SHARE

Earnings per share is computed by dividing profit for the year by the weighted average number of shares outstanding during the year as follows

	2017	2016
	KD'000	KD'000
Profit for the year	8,717	8,087
Weighted average number of the Parent Company's issued and paid-up shares (000's)	536,764	536,764
Weighted average number of the Parent Company's treasury shares (000's)	(28,503)	(27,221)
Weighted average number of the Parent Company's outstanding shares (000's)	508,261	509,543
Earnings per share	17 Fils	16 Fils

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. RELATED PARTY TRANSACTIONS

Related parties comprise associated companies, major shareholders, directors and key management personnel of the Group, their families and companies of which they are the principal owners. The Group enters into transactions with related parties. Pricing policies and terms are approved by the Group's management.

The related party transactions and balances included in these consolidated financial statements are as follows:

a) Compensation of key management personnel of the Parent Company

The remuneration of directors and other members of key management during the year exclusive of remuneration to the directors referred to in note 18 was as follows:

	2017	2016
	KD'000	KD'000
Salaries and other short-term benefits	411	407
Post-employment benefits	67	54
	<u>478</u>	<u>461</u>

b) Instalment debtors

	2017	2016
	KD'000	KD'000
Balance at 1 January	39	51
Loans advanced	31	-
Instalment repayments	(33)	(12)
Balance at 31 December	<u>37</u>	<u>39</u>

21. COMMITMENTS

	2017	2016
	KD'000	KD'000
Capital commitments	<u>44</u>	<u>45</u>

22. REVENUE AND SEGMENTAL ANALYSIS

In accordance with IFRS 8, operating segments are identified based on internal management reporting information that is regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance and is reconciled to Group profit or loss.

The Group operates in one principal area of activity, the granting of credit facilities. Its consumer credit operations are carried out entirely in the domestic market in Kuwait. The Group has investments both inside and outside the State of Kuwait.

The measurement policies that the Group uses for segment reporting under IFRS 8 are the same as those used in its annual audited consolidated financial statements.

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22. REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

A segmental analysis of profit from ordinary activities, total assets, total liabilities and net assets employed by geographical location is as follows:

	Kuwait KD'000	International KD'000	Total KD'000
At 31 December 2017			
Total income	21,135	1,655	22,790
Profit before contribution to KFAS, NLST, Zakat and Directors' remuneration	7,571	1,655	9,226
Total assets	295,192	43,203	338,395
Total liabilities	(160,655)	(9,052)	(169,707)
Net assets employed	134,537	34,151	168,688
Other information			
Increase in fair value of financial assets at FVTPL	1,571	-	1,571
Share of results of associates	583	-	583
Provision for doubtful debts, net of released amount	(3,285)	-	(3,285)
Provision for end of service indemnity	(568)	-	(568)
Depreciation	(49)	-	(49)
At 31 December 2016			
Total income	18,978	1,129	20,107
Profit before contribution to KFAS, NLST, Zakat and Directors' remuneration	7,421	1,129	8,550
Total assets	313,623	38,410	352,033
Total liabilities	(145,390)	(38,645)	(184,035)
Net assets employed	168,233	(235)	167,998
Other information			
Decrease in fair value of financial assets at FVTPL	(571)	-	(571)
Share of results of associates	576	-	576
Provision for doubtful debts, net of released amount	(2,763)	-	(2,763)
Provision for end of service indemnity	(118)	-	(118)
Depreciation	(48)	-	(48)

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23. FINANCIAL RISK MANAGEMENT

The Group's financial assets have been categorized as follows :

	Loans and receivables	FVTPL	Available- for-sale
	KD'000	KD'000	KD'000
31 December 2017			
Cash and bank balances	28,103	-	-
Other receivables	1,314	-	-
Instalment debtors	248,308	-	-
Financial assets at fair value through profit or loss	-	8,397	-
Available-for-sale investments	-	-	32,525
	<u>277,725</u>	<u>8,397</u>	<u>32,525</u>
31 December 2016			
Cash and bank balances	39,429	-	-
Other receivables	1,442	-	-
Instalment debtors	256,327	-	-
Financial assets at fair value through profit or loss	-	7,152	-
Available-for-sale investments	-	-	27,999
	<u>297,198</u>	<u>7,152</u>	<u>27,999</u>

All financial liabilities are categorized as 'other than at fair value through profit or loss'.

Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework and developing and monitoring the risk management policies. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group's Board of Directors oversees how management monitors compliance with the risk management policies and procedures and reviews adequacy of the risk management framework in relation to the risks faced by the Group. The significant risks that the Group is exposed to are discussed below :

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises of three types of risks: currency risk, interest rate risk and equity price risk. As part of its overall risk management, the Group uses forward foreign exchange contracts to manage market risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Currency risk

Currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is primarily exposed to foreign currency risk as a result of foreign exchange gains/losses on translation of foreign currency denominated assets and liabilities such as deposits, available-for-sale investments, investment properties and term loans. The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the US Dollar, Bahraini Dinar and Saudi Riyal.

The analysis below shows the effect of a 1% strengthening in the foreign currency rates against KD, with all other variables held constant on the profit for the year. A positive amount in the table reflects a net potential increase in the profit for the year, while a negative amount reflects a net potential decrease.

There have been no changes in the method and the assumptions used in the preparation of the sensitivity analysis as compared to the prior year.

	2017	2016
	KD'000	KD'000
US Dollar	231	(93)
Bahraini Dinar	47	47
Saudi Riyal	20	19
Others	37	21

A 1% weakening of the above currencies against the KD would have had an equal, but opposite, effect of the amounts shown above, with all other variables held constant.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from term deposits, bank overdrafts and term loans. Bank overdrafts and term loans taken at variable rates and term deposits placed at variable rates expose the Company to cash flow interest rate risk.

The Group manages interest rate risk by borrowing funds at market linked floating interest rates and placing term deposits at the best available rates.

At 31 December 2017, if interest rates at that date had been 25 basis points higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 354 thousand (2016: KD 350 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The effect on profit (as a result of a change in the fair value of equity instruments held as at fair value through profit or loss) at the year end due to an assumed 5% change in market indices, with all other variables held constant, is as follows:

	2017	2016
	Effect on profit	Effect on profit
	KD'000	KD'000
Kuwait Stock Exchange	+ 481	± 341

(b) Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the management.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures require that all credit proposals be subjected to detailed screening by the relevant division prior to approval. In accordance with the instructions of the Central Bank of Kuwait setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising of competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group.

This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of these customers, in order to determine whether further provisions are required.

All credit facilities are continuously monitored based on periodical review of the credit performance and account rating.

(i) Maximum exposure to credit risk

An analysis of the Group's financial assets before taking into account other credit enhancements, is as follows:

	Net exposure	
	2017	2016
	KD'000	KD'000
Cash and bank balances (excluding cash on hand)	28,103	39,429
Other receivables	1,314	1,442
Instalment debtors	248,308	256,327
Available-for-sale investments	8,480	7,748
	<u>286,205</u>	<u>304,946</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio.

The Group's financial assets can be analysed by the following geographic regions:

At 31 December 2017

Geographic region	Middle East and North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
Cash and bank balances (excluding cash on hand)	28,103	-	-	-	28,103
Other receivables	1,314	-	-	-	1,314
Instalment debtors	248,308	-	-	-	248,308
Available-for-sale investments	8,480	-	-	-	8,480
	<u>286,205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>286,205</u>

At 31 December 2016

Geographic region	Middle East and North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
Cash and bank balances (excluding cash on hand)	39,429	-	-	-	39,429
Other receivables	1,442	-	-	-	1,442
Instalment debtors	256,327	-	-	-	256,327
Available-for-sale investments	7,748	-	-	-	7,748
	<u>304,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,946</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group does not obtain any collateral on its financial assets other than personal guarantees. The Group's concentration on financial assets can be analysed by the following industry sectors:

	2017	2016
	KD'000	KD'000
Industry sector		
Banks and other financial institutions	35,133	46,477
Retail	248,308	256,327
Others	2,764	2,142
	<u>286,205</u>	<u>304,946</u>

(iii) Credit quality per class of financial assets

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities which payment performance is fully compliant with contractual conditions and which are not 'Impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for the consolidated statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired	Past due not impaired	
	High	Standard	Total
	KD'000	KD'000	KD'000
31 December 2017			
Cash and bank balances (excluding cash on hand)	28,103	-	28,103
Other receivables	1,314	-	1,314
Instalment debtors	215,042	33,266	248,308
Available-for-sale investments	8,480	-	8,480
	<u>252,939</u>	<u>33,266</u>	<u>286,205</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Neither past due nor impaired	Past due not impaired	Total
	High	Standard	
	KD'000	KD'000	KD'000
31 December 2016			
Cash and bank balances (excluding cash on hand)	39,429	-	39,429
Other receivables	1,442	-	1,442
Instalment debtors	225,190	31,137	256,327
Available-for-sale investments	7,748	-	7,748
	<u>273,809</u>	<u>31,137</u>	<u>304,946</u>

(iv) Aging analysis of past due instalment debtors

31 December 2017

Up to 90 days past due	
91-180 days past due	
181 – 360 days past due	
More than 360 days past due	

Retail	
Past due and not impaired	Past due and impaired
KD'000	KD'000
23,761	-
6,624	1,605
2,881	2,672
-	19,701
<u>33,266</u>	<u>23,978</u>

31 December 2016

Up to 90 days past due	
91-180 days past due	
181 – 360 days past due	
More than 360 days past due	

Retail	
Past due and not impaired	Past due and impaired
KD'000	KD'000
22,267	-
5,869	1,424
3,001	2,789
-	16,409
<u>31,137</u>	<u>20,622</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Undiscounted			Total
	Up to 3 months	3 to 12 months	1 to 5 years	
	KD'000	KD'000	KD'000	KD'000
31 December 2017				
Financial liabilities				
Trade creditors and accrued liabilities	5,393	404	-	5,797
Term loans	4,730	35,450	132,568	172,748
	<u>10,123</u>	<u>35,854</u>	<u>132,568</u>	<u>178,545</u>
Commitments				
Commitments for purchase of available-for-sale investments	<u>44</u>	<u>-</u>	<u>-</u>	<u>44</u>
31 December 2016				
Financial Liabilities				
Trade creditors and accrued liabilities	5,097	358	-	5,455
Term loans	15,381	66,866	102,525	184,772
	<u>20,478</u>	<u>67,224</u>	<u>102,525</u>	<u>190,227</u>
Commitments				
Commitments for purchase of available-for-sale investments	<u>45</u>	<u>-</u>	<u>-</u>	<u>45</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the compliance and risk management function, which ensures compliance with policies and procedures and monitors operational risk as part of overall risk management activities.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group's financial assets are measured at fair value at the end of each reporting period. The following tables gives information about how the fair values of these financial assets are determined.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 : valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	2017			Total KD'000
	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	
Financial assets at fair value through profit or loss				
Financial assets at fair value through profit or loss	8,397	-	-	8,397
Available-for-sale investments				
Debt securities	-	8,480	-	8,480
Managed funds	-	-	249	249
Equity participation	-	-	23,756	23,756
	<u>8,397</u>	<u>8,480</u>	<u>24,005</u>	<u>40,882</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2016			Total KD'000
	Level 1	Level 2	Level 3	
	KD'000	KD'000	KD'000	
Financial assets at fair value through profit or loss				
Financial assets at fair value through profit or loss	7,152	-	-	7,152
Available-for-sale investments				
Quoted debt	-	7,748	-	7,748
Managed funds	-	-	259	259
Equity participations	-	-	19,080	19,080
	<u>7,152</u>	<u>7,748</u>	<u>19,339</u>	<u>34,239</u>

Financial assets	Fair value as at		Fair value Hierarchy	Sector
	2017 KD'000	2016 KD'000		
Financial assets at fair value through profit or loss - Quoted securities	7,859	6,564	Level 1	Financial Institutions
	538	555	Level 1	Real estate
	-	33	Level 1	Retail
	<u>8,397</u>	<u>7,152</u>		
Available-for-sale investments - Unquoted debt	7,780	7,048	Level 2	Financial Institutions
	700	700	Level 2	Real estate
	<u>8,480</u>	<u>7,748</u>		
Available-for-sale investments - Unquoted funds	75	80	Level 3	Media & technology
	127	130	Level 3	Real estate
	47	49	Level 3	Retail
Available-for-sale investments - Unquoted securities	15,713	10,386	Level 3	Real estate
	6,440	6,472	Level 3	Financial Institutions
	1,433	2,059	Level 3	Service
	170	163	Level 3	Media & technology
	<u>24,005</u>	<u>19,339</u>		
	<u>40,882</u>	<u>34,239</u>		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Movement in level 3 available-for-sale investments (Unquoted securities) is as follows:

	2017	2016
	KD'000	KD'000
Opening balance	19,339	14,818
Total gain or losses:		
- in profit or loss	(71)	284
- in other comprehensive income	146	334
Purchases/ transfers	6,101	4,422
Sales	(1,510)	(519)
Closing balance	<u>24,005</u>	<u>19,339</u>

The fair values of equity investments are obtained from quoted market prices and other models as appropriate.

Valuation techniques include observable market information of comparable companies and net asset values. Significant unobservable inputs used in valuation techniques mainly include market multiples such as price to book and price to earnings. The most significant unobservable inputs used is the illiquidity discount in the level 3 hierarchy.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values.

A sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impact on the consolidated statement of financial position or consolidated statement of profit or loss.

24. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return on investment to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Parent Company is required to have a minimum paid up share capital of KD 15 million to be registered with CBK.

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from previous year.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity (as shown in the consolidated statement of financial position) plus net debt.

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24. CAPITAL RISK MANAGEMENT (CONTINUED)

Gearing ratio

The gearing ratio at the year end was as follows:

	2017	2016
	KD'000	KD'000
Total Borrowings (i)	159,506	174,353
Less: Cash and cash equivalents	(10,085)	(18,975)
Net debts	149,421	155,378
Total Equity	168,688	167,998
Total Capital	318,109	323,376
Net debt to total capital %	47%	48%

Debt include term loans as disclosed in note 11.

25. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect amounts reported in these consolidated financial statements. Actual results could differ from these estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Judgements and estimates that are significant to the consolidated financial statements are shown below:

Judgements

Classification of investments

On acquisition of an investment, management has to decide whether it should be classified as "at fair value through profit or loss" or "available for sale". In making that judgment the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of profit or loss or directly in equity.

Impairment of investments

The Group treats investments as impaired when there has been a significant or prolonged decline in fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

Contingent liabilities / liabilities

Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Fair value hierarchy

As disclosed in note 23, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, such as such as pricing multiples available from comparable companies, forecast of cash flows and related discount rates, and estimated maintainable dividend, including consideration of factors specific to the asset or liability.

Key sources of estimation uncertainty

Impairment losses on other receivables and instalment debtors

The Group's management reviews periodically items classified as other receivables and instalment debtors to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. Management estimates the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.