

**Commercial Facilities Company S.A.K.P.
and Subsidiaries
State of Kuwait**



شركة التسهيلات التجارية ش.م.ك
COMMERCIAL FACILITIES CO. s.a.k

**Interim Condensed Consolidated Financial
Information and Independent Auditors' Review
Report for the Period from
1 January to 31 March 2018
(Unaudited)**

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**Commercial Facilities Company S.A.K.P.
State of Kuwait**

INDEPENDENT AUDITORS' REVIEW REPORT TO THE BOARD OF DIRECTORS

Report on Review of Interim Condensed Consolidated Financial Information

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Commercial Facilities Company S.A.K.P. ("the Parent Company") and its subsidiaries (collectively "the Group") as at 31 March 2018, and the related interim condensed consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the three months period then ended. The management of the Group is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Group. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its Executive Regulations, as amended or by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended during the three months period ended 31 March 2018 that might have had a material effect on the business of the Group or on its financial position. We further report that, during the course of our review, to the best of our knowledge and belief, 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 Markets Authority and its related regulations during the three months period ended 31 March 2018 that might have had a material effect on the business of the Group or on its financial position.


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8 May 2018


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Commercial Facilities Company S.A.K.P. and Subsidiaries
State of Kuwait

Interim Condensed Consolidated Statement of Financial Position as at 31 March 2018
(Unaudited)



		(Unaudited) 31 March 2018	(Audited) 31 December 2017	(Unaudited) 31 March 2017
	Notes	KD'000	KD'000	KD'000
Assets				
Cash and bank balances	4	50,149	28,105	36,218
Other receivables and prepayments		2,164	1,463	1,948
Instalment debtors	5	242,273	248,308	255,854
Investment securities	6	41,710	40,922	35,975
Investment in associates	7	13,258	13,095	13,148
Investment properties		4,239	4,239	4,200
Property and equipment		2,258	2,263	2,201
Total assets		356,051	338,395	349,544
Liabilities and equity				
Liabilities				
Trade creditors and other liabilities		13,373	5,797	4,898
Term loans	8	175,518	159,506	170,224
Provision for staff indemnity		4,433	4,404	4,249
Total liabilities		193,324	169,707	179,371
Equity				
Share capital		53,676	53,676	53,676
Share premium		1,433	1,433	1,433
Legal reserve		48,344	48,344	47,421
Voluntary reserve		48,093	48,093	48,093
Fair value reserve		3,744	3,837	3,556
Foreign currency translation reserve		742	754	955
Land revaluation reserve		915	915	852
Treasury shares	10	(11,209)	(11,209)	(11,189)
Gain on sale of treasury shares		14	14	14
Retained earnings		16,952	22,809	17,209
Proposed dividend		-	-	8,132
Equity attributable to the shareholders of the Parent Company		162,704	168,666	170,152
Non-controlling interests		23	22	21
Total equity		162,727	168,688	170,173
Total liabilities and equity		356,051	338,395	349,544

Ali Ibrahim Marafi
Chairman



Abdallah Saud Abdulaziz Al-Humaidhi
Vice Chairman and Chief Executive Officer

The accompanying notes 1 to 18 form an integral part of this interim condensed consolidated financial information.

Commercial Facilities Company S.A.K.P. and Subsidiaries
State of Kuwait

Interim Condensed Consolidated Statement of Profit or Loss
 – period from 1 January to 31 March 2018 (Unaudited)



		Three-month period ended	
		31 March	
	Notes	2018 KD'000	2017 KD'000
Income from instalment credit		4,280	4,349
Share of results of associates	7	163	118
Other income		268	272
Net gains from investments	11	1,385	991
Rental income from investment properties		34	81
Net foreign exchange gains		-	99
Total other income		1,850	1,561
Borrowing costs		(1,708)	(1,405)
Staff costs and related expenses		(673)	(673)
General and administrative expenses		(233)	(297)
Net foreign exchange losses		(59)	-
Total other expenses		(2,673)	(2,375)
Profit before provision for credit losses and expected credit loss		3,457	3,535
Provision for doubtful debts		(637)	(1,225)
Provision for credit loss expense	13	(36)	-
Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' remuneration		2,784	2,310
Provision for KFAS		(28)	(23)
Provision for NLST and Zakat		(87)	(68)
Provision for Directors' remuneration		(26)	(26)
Profit for the period		2,643	2,193
Attributable to:			
Shareholders of the Parent Company		2,642	2,192
Non-controlling interests		1	1
		2,643	2,193
Earnings per share	12	5 Fils	4 Fils

The accompanying notes 1 to 18 form an integral part of this interim condensed consolidated financial information.

Commercial Facilities Company S.A.K.P. and Subsidiaries
State of Kuwait

Interim Condensed Consolidated Statement of Profit or Loss and
Other Comprehensive Income - period from 1 January to 31 March 2018 (Unaudited)



	Three-month period ended 31 March	
	2018	2017
	KD'000	KD'000
Profit for the period	<u>2,643</u>	<u>2,193</u>
Other comprehensive income		
<i>Items to be reclassified to consolidated profit or loss in subsequent periods</i>		
Foreign exchange losses	(12)	(61)
Change in fair value of available-for-sale investments	-	23
<i>Items not to be reclassified to consolidated profit or loss in subsequent periods</i>		
Change in fair value of investments at FVOCI	<u>(93)</u>	<u>-</u>
Other comprehensive income for the period	<u>(105)</u>	<u>(38)</u>
Total comprehensive income for the period	<u>2,538</u>	<u>2,155</u>
Total comprehensive income attributable to:		
Shareholders of the Parent Company	2,537	2,154
Non-controlling interests	<u>1</u>	<u>1</u>
	<u>2,538</u>	<u>2,155</u>

The accompanying notes 1 to 18 form an integral part of this interim condensed consolidated financial information.

The SPPI test

The Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss (FVTPL).

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

3.1. Measurement categories of financial assets and liabilities

The IAS 39 measurement categories of financial assets FVTPL, available for sale (AFS), held-to-maturity and amortised cost have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVTPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the statement of profit or loss.

3.1.1. Debt instruments at amortized cost

A financial asset which is a debt instruments, is measured at amortised cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Bank balances and other receivables are classified as debt instruments at amortised cost.

Debt instruments measured at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any.

3.1.2. Debt instruments at FVOCI

A debt investment is carried at FVOCI if it meets both of the following conditions:

- It is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in statement of profit or loss. The ECL calculation for Debt instruments at FVOCI is explained in Note 3.2. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. The management of the Group classifies certain unquoted Bonds and includes them under investment at FVOCI in the statement of financial position.

3.1.3. Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to statement of profit or loss. Dividends are recognised in statement of profit or loss when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the statement of changes in equity. The management classifies certain equity investments at FVOCI and are included in investment at FVOCI in the statement of financial position.

3.1.4. Financial asset at FVTPL

The Group classifies financial assets as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, interest income and dividends are recorded in statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

Included in this classification are certain debt securities and equities, that have been acquired principally for the purpose of selling or repurchasing in the near term.

3.2. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The management has applied the new impairment model only to debt instruments at amortised cost and FVOCI excluding instalment debtors for which the Group continues to apply impairment requirements under CBK regulations.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. Key changes in the Group's accounting policy for impairment of financial assets are listed below:

The Group applies three-stage approach to measuring expected credit losses (ECL). Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Lifetime ECL are recorded on financial assets that is credit-impaired. A financial asset is 'credit-impaired' when there is an objective evidence of impairment that has a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- debts instruments at amortised cost excluding instalment debtors and;
- debt instruments at FVOCI.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The management recognises a 12-month ECL on bank balances and debt securities carried at FVOCI since these are determined to have low credit risk at the reporting date and these financial instrument represent investments that are of high credit quality grade.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and are taken to Stage 3.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers quantitative, qualitative information and back stop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information.

Objective evidence that debt instrument is impaired includes whether any payment of principal or interest is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the

value of collateral etc. The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant except for instalment debtors where minimum general provision as per CBK's instructions is followed.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, consumer price index and government expenditure, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

3.3. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied with effect from 1 January 2018, as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2017.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The impact of adoption of IFRS 9 has been disclosed in note 13.

3.4. Judgement and estimates

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements as at and for the year ended 31 December 2017.

4. Cash and bank balances

	(Unaudited) 31 March 2018 KD'000	(Audited) 31 December 2017 KD'000	(Unaudited) 31 March 2017 KD'000
Cash on hand	-	2	6
Bank balances	20,326	10,083	4,602
Deposits	29,823	18,020	31,610
	<u>50,149</u>	<u>28,105</u>	<u>36,218</u>
Less: Deposits with original maturity over three months	<u>(10,303)</u>	<u>(18,020)</u>	<u>(9,953)</u>
Cash and cash equivalents as per consolidated statement of cash flows	<u>39,846</u>	<u>10,085</u>	<u>26,265</u>

The Group's deposits with local banks and foreign banks, denominated in KD, amount to 11,999 (31 December 2017: Nil and 31 March 2017: KD 14,000 thousand) and those denominated in USD and LBP with foreign banks based in the Middle East amount to KD 17,824 thousand (31 December 2017: KD 18,020 thousand and 31 March 2017: KD 17,610 thousand). These deposits yield interest ranging from 1.75% to 6.75% (31 December 2017: 4.50% to 6.45% and 31 March 2017: 1.31% to 6.45%) per annum.

5. Instalment debtors

The average interest rate earned from instalment credit for the three-month period ended 31 March 2018 was 4.46% (31 December 2017: 4.37% and 31 March 2017: 4.18%) per annum.

6. Investment securities

	(Unaudited) 31 March 2018 KD'000	(Audited) 31 December 2017 KD'000	(Unaudited) 31 March 2017 KD'000
Financial assets at FVTPL	9,962	8,397	7,609
Investments at FVOCI	31,748	-	-
Available-for-sale investments			
Investments carried at fair value	-	32,485	27,450
Investments carried at cost	-	40	916
	<u>41,710</u>	<u>40,922</u>	<u>35,975</u>

7. Investments in associates

Investments in associated companies are as follows:

	Place of incorporation and operation	Proportion of ownership interest 2017 and 2018	Principal activity
Real Estate Facilities and Investment Company K.S.C.C	Kuwait	26.43%	Finance of real estate
Priority Automobile Company K.S.C.C.	Kuwait	44.56%	Renting and leasing of luxury cars

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

	31 March 2018 KD'000	31 March 2017 KD'000
Total assets	55,460	51,855
Total liabilities	(15,363)	(12,095)
Net assets	40,097	39,760
Group's share of associates' net assets	13,258	13,148
Revenues	2,750	2,627
Profit for the period	538	415
Group's share of results of associates	163	118

8. Term loans

	(Unaudited) 31 March 2018 KD'000	(Audited) 31 December 2017 KD'000	(Unaudited) 31 March 2017 KD'000
Loans denominated in KD	139,798	150,454	135,883
Loans denominated in USD	35,720	9,052	34,341
	175,518	159,506	170,224

During the period, the Group obtained KD loans amounting to Nil (31 December 2017: KD 53 million and 31 March 2017: KD 10 million) and USD loans amounting to USD 50 million (31 December 2017: Nil and 31 March 2017: Nil).

The weighted average interest rate on KD loans outstanding at 31 March 2018 was 3.8% per annum and on USD loans was 3.19% per annum (31 December 2017: 3.68% per annum and 2.78% per annum respectively and for 31 March 2017: 3.55% per annum and 2.66% per annum respectively).

The Group's outstanding term loans at 31 March 2018 are borrowed under floating rate agreements. The interest rates were determined at normal commercial rates available from the debt market on an arm's length basis. The Group has assigned customer contracts amounting to KD 232,988 thousand (31 December 2017: KD 230,801 thousand and 31 March 2017: KD 154,961 thousand) as security over 20 term loans (31 December 2017: 18 term loans and 31 March 2017: 16 term loans) with balances outstanding of KD 175,518 thousand (31 December 2017: KD 159,506 thousand and 31 March 2017: KD 170,224 thousand).

9. 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 this interim condensed consolidated financial information are as follows:

a) Compensation of key management personnel of the Parent Company

	Three-month period ended 31 March	
	2018 KD'000	2017 KD'000
Salaries and other short-term benefits	104	103
Post-employment benefits	14	10
	118	113

b) Instalment debtors

Balance at 1 January	37	39
Loan advance received	-	15
Instalment repayments received	(7)	(6)
Balance at 31 March	<u>30</u>	<u>48</u>

10. Treasury shares

	(Unaudited) 31 March 2018	(Audited) 31 December 2017	(Unaudited) 31 March 2017
Number of shares purchased (000's)	-	121	-
Cost of shares purchased during the period / year (KD'000)	-	20	-
Market value of total treasury shares (KD'000)	5,235	4,863	5,185
Percentage of issued shares	5.33%	5.33%	5.31%
Total number of shares (000's)	28,608	28,608	28,487

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

11. Net gains from investments

	Three-month period ended 31 March	
	2018	2017
	KD'000	KD'000
Increase in fair value of financial assets at FVTPL	683	595
Realised gain on sale of available-for-sale investments	-	55
Realised loss on sale of financial assets at FVTPL	25	(184)
Dividend income	<u>677</u>	<u>525</u>
	<u>1,385</u>	<u>991</u>

12. Earnings per share

Earnings per share is computed by dividing profit for the three-month period by the weighted average number of shares outstanding during the period as follows:

	Three-month period ended 31 March	
	2018	2017
	KD'000	KD'000
Profit for the period	<u>2,643</u>	<u>2,193</u>
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)	<u>(28,608)</u>	<u>(28,487)</u>
Weighted average number of the Parent Company's outstanding shares (000's)	<u>508,156</u>	<u>508,277</u>
Earnings per share	<u>5 Fils</u>	<u>4 Fils</u>

13. Impacts of IFRS 9 adoption

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasurement ECL	New carrying amount under IFRS 9
	KD'000	KD'000	KD'000	KD'000	KD'000
Financial assets					
Cash and bank balances	Loans and receivables	Amortised cost	28,105	(366)	27,739
Other receivables	Loans and receivables	Amortised cost	1,314	-	1,314
Instalment debtors	Loans and receivables	Amortised cost	248,308	-	248,308
Investment securities					
- Debt securities	AFS	FVOCI	7,351	(2)	7,349
- Debt securities	AFS	FVTPL	1,129	-	1,129
- Equities	AFS	FVOCI	24,045	-	24,045
- Equities	FVPL	FVTPL	8,397	-	8,397
			<u>318,649</u>	<u>(368)</u>	<u>318,281</u>

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

The impact of this change in accounting policy as at 1 January 2018 has been to decrease retained earnings by KD 368 thousand as follows:

	Retained earnings
	KD'000
Closing balance under IAS 39 (31 December 2017)	22,809
<i>Impact on recognition of ECL:</i>	
Expected credit losses under IFRS 9 for debt financial assets at FVOCI	(2)
Expected credit losses under IFRS 9 for financial assets at amortised cost	(366)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	<u>22,441</u>

Impairment allowances

The following table reconciles the closing impairment allowances for financial assets other than instalment debtors determined in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowances determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowances under IAS 39 at 31 December 2017	Remeasurement	Expected credit losses under IFRS 9 at 1 January 2018
	KD'000	KD'000	KD'000
Debt investment securities measured at FVOCI	-	2	2
Other financial assets measured at amortised cost	-	366	366
Total expected credit losses	<u>-</u>	<u>368</u>	<u>368</u>

Credit loss expense

The table below shows the ECL charges on financial instruments for the period recorded in the consolidated statement of profit or loss:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	KD'000	KD'000	KD'000	KD'000
Bank balances	36	-	-	36

No movement in ECL charge between stages 2-3 during current period.

14. Revenue and segmental analysis

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

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

	<u>Kuwait</u>	<u>International</u>	<u>Total</u>
	KD'000	KD'000	KD'000
At 31 March 2018 (Unaudited)			
Profit before provisions for contribution to KFAS, NLST, Zakat and Directors' remuneration	2,317	467	2,784
Total assets	312,604	43,447	356,051
Total liabilities	(157,604)	(35,720)	(193,324)
Net assets employed	155,000	7,727	162,727
At 31 December 2017 (Audited)			
Profit before provisions for 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
At 31 March 2017 (Unaudited)			
Profit before provisions for contribution to KFAS, NLST, Zakat and Directors' remuneration	1,876	434	2,310
Total assets	301,500	48,044	349,544
Total liabilities	(145,030)	(34,341)	(179,371)
Net assets employed	156,470	13,703	170,173

15. Commitments

The Group has capital commitments of KD 44 thousand (31 December 2017: KD 44 thousand and 31 March 2017: KD 45 thousand) on purchase of investments.

16. Annual general assembly

The shareholder's annual general assembly held on 28 March 2018 approved the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the payment of cash dividend of 16 fils per share to the shareholders on record as of the date of the annual general assembly (2016: 16 fils per share) amounting to KD 8,131 thousand (2016: KD 8,132 thousand).

17. Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the annual audited consolidated financial statements for the year ended 31 December 2017.

18. 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).

31 March 2018 (Unaudited)

	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
Financial assets at FVTPL				
Quoted equity	8,841	-	-	8,841
Debt securities	-	1,121	-	1,121
Financial assets at FVOCI				
Debt securities	-	7,350	-	7,350
Managed funds	-	-	122	122
Equity instruments	-	-	24,276	24,276
	<u>8,841</u>	<u>8,471</u>	<u>24,398</u>	<u>41,710</u>

31 December 2017 (Audited)

	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
Financial assets at FVTPL				
Quoted equity	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>

31 March 2017 (Unaudited)

	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
Financial assets at FVTPL				
Quoted equity	7,609	-	-	7,609
Available-for-sale investments				
Debt securities	-	7,742	-	7,742
Managed funds	-	-	253	253
Equity participations (unquoted securities)	-	-	19,455	19,455
	<u>7,609</u>	<u>7,742</u>	<u>19,708</u>	<u>35,059</u>

Financial assets	Fair value as at			Fair value Hierarchy	Sector
	31 March 2018	31 December 2017	31 March 2017		
	KD'000	KD'000	KD'000		
Financial assets at FVTPL - Quoted securities	8,242	7,859	6,966	Level 1	Financial Institutions
	599	538	643	Level 1	Real estate
	<u>8,841</u>	<u>8,397</u>	<u>7,609</u>		
Financial assets at FVTPL - Debt securities	1,121	-	-	Level 2	Financial Institutions
Financial assets at FVOIC - Unquoted debt	6,650	7,780	7,042	Level 2	Financial Institutions
	700	700	700	Level 2	Real estate
	<u>8,471</u>	<u>8,480</u>	<u>7,742</u>		
Financial assets at FVTPL - Unquoted funds	22	75	80	Level 3	Media & technology
	51	127	124	Level 3	Real estate
	49	47	49	Level 3	Retail
Financial assets at FVOCI - Unquoted securities	16,183	15,713	10,790	Level 3	Real estate
	6,454	6,440	6,451	Level 3	Financial Institutions
	1,466	1,433	2,048	Level 3	Service
	173	170	166	Level 3	Manufacturing
	<u>24,398</u>	<u>24,005</u>	<u>19,708</u>		
	<u>41,710</u>	<u>40,882</u>	<u>35,059</u>		

Movement in level 3 is as follows:

	(Unaudited) 31 March 2018	(Audited) 31 December 2017	(Unaudited) 31 March 2017
	KD'000	KD'000	KD'000
Opening balance	24,005	19,339	19,339
Total gain or losses:			
- in profit or loss	-	(71)	(13)
- in other comprehensive income	(97)	146	23
Purchases/ transfers	640	6,101	457
Sales	(150)	(1,510)	(98)
Closing balance	<u>24,398</u>	<u>24,005</u>	<u>19,708</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. 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.