



شركة التسهيلات التجارية ش.م.ك
COMMERCIAL FACILITIES CO. S.A.K.P.

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

**Interim Condensed Consolidated Financial Information
and Independent Auditors' Review Report
for the nine-month period ended 30 September 2018
(Unaudited)**



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

Interim Condensed Consolidated Financial Information
and Independent Auditors' Review Report
for the nine-month period ended 30 September 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 30 September 2018, and the related interim condensed consolidated statements of profit or loss, profit or loss and other comprehensive income for the three-month and nine-month periods then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the nine-month 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 Parent Company. 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 nine-month period ended 30 September 2018 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 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, as amended, concerning the Capital Markets Authority and its related regulations during the nine-month period ended 30 September 2018 that might have had a material effect on the business of the Group or on its consolidated financial position.



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Kuwait 29 October 2018

Interim Condensed Consolidated Statement of Financial Position as at 30 September 2018
(Unaudited)

(All amounts are in Kuwaiti Dinar Thousand)

Notes	30 September 2018	31 December 2017 (Audited)	30 September 2017
Assets			
Cash and bank balances	5	38,040	28,105
Other receivables and prepayments		2,353	1,919
Instalment debtors	6	237,787	248,308
Financial assets at FVTPL	7	10,588	8,397
Available for sale investments	7	-	32,525
Investment at FVOCI	7	35,064	-
Investment in associates	8	13,246	13,095
Investment properties		4,239	4,200
Property and equipment		2,433	2,117
Total assets		343,750	341,174
Liabilities and equity			
Liabilities			
Due to banks		3,594	701
Trade creditors and other liabilities		5,601	5,178
Term loans	9	162,623	159,506
Provision for staff indemnity		4,519	4,006
Total liabilities		176,337	174,143
Equity			
Share capital		53,676	53,676
Share premium		1,433	1,433
Legal reserve		48,344	47,421
Voluntary reserve		48,093	48,093
Fair value reserve		3,509	3,543
Foreign currency translation reserve		731	847
Revaluation reserve		915	852
Treasury shares	11	(11,209)	(11,189)
Gain on sale of treasury shares		14	14
Retained earnings		21,884	22,319
Equity attributable to the shareholders of the Parent Company		167,390	167,009
Non-controlling interests		23	22
Total equity		167,413	167,031
Total liabilities and equity		343,750	341,174

Ali Ibrahim Marafi
Chairman



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

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

Interim Condensed Consolidated Statement of Profit or Loss for the nine-month period ended 30 September 2018
(Unaudited)

(All amounts are in Kuwaiti Dinar Thousand)

	Notes	Three-month period ended		Nine -month period ended	
		30 September 2018	30 September 2017	30 September 2018	30 September 2017
Income from instalment credit		4,466	4,518	13,057	13,186
Share of results of associates	8	197	169	516	437
Other income		354	248	967	774
Net gain from investments	12	948	1,375	2,547	3,015
Rental income from investment property		79	75	174	213
Net foreign exchange gain		-	68	-	286
Total other income		1,578	1,935	4,204	4,725
Borrowing costs		(1,634)	(1,471)	(4,773)	(4,347)
Staff costs and related expenses		(675)	(639)	(2,024)	(1,930)
General and administrative expenses		(240)	(288)	(713)	(875)
Net Foreign Exchange Losses		(4)	-	(200)	-
Total other expenses		(2,553)	(2,398)	(7,710)	(7,152)
Profit before provision for credit losses and impairment losses		3,491	4,055	9,551	10,759
Provision for doubtful debts		(715)	(941)	(1,927)	(3,052)
ECL	14	27	-	(9)	-
Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' remuneration		2,803	3,114	7,615	7,707
Provision for KFAS		(28)	(31)	(76)	(77)
Provision for NLST and Zakat		(96)	(116)	(254)	(247)
Provision for Directors' remuneration		(26)	(26)	(79)	(79)
Profit for the period		2,653	2,941	7,206	7,304
Attributable to:					
Shareholders of the Parent Company		2,653	2,940	7,205	7,302
Non-controlling interests		-	1	1	2
		2,653	2,941	7,206	7,304
Earnings per share	13	5 Fils	6 Fils	14 Fils	14 Fils

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

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the nine-month period ended 30 September 2018
(Unaudited)

(All amounts are in Kuwaiti Dinar Thousand)

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	2017	2018	2017
Profit for the period	<u>2,653</u>	<u>2,941</u>	<u>7,206</u>	<u>7,304</u>
Other comprehensive income				
<i>Items to be reclassified to consolidated profit or loss in subsequent periods</i>				
Foreign exchange gains/ (losses)	4	(29)	(23)	(169)
Change in fair value of available-for-sale investments	-	(9)	-	10
<i>Items not to be reclassified to consolidated profit or loss in subsequent periods</i>				
Change in fair value of investments at FVOCI	-	-	41	-
Other comprehensive income/ (loss) for the period	<u>4</u>	<u>(38)</u>	<u>18</u>	<u>(159)</u>
Total comprehensive income for the period	<u>2,657</u>	<u>2,903</u>	<u>7,224</u>	<u>7,145</u>
Total comprehensive income attributable to:				
Shareholders of the Parent Company	2,657	2,902	7,223	7,143
Non-controlling interests	-	1	1	2
	<u>2,657</u>	<u>2,903</u>	<u>7,224</u>	<u>7,145</u>

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

Interim Condensed Consolidated Statement of Changes in Equity for the nine-month period ended 30 September 2018
(Unaudited)

(All amounts are in Kuwaiti Dinar Thousand)

	Equity attributable to shareholders of the Parent Company										Non-Controlling Interest	Total
	Share capital	Share premium	Legal reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Land revaluation reserve	Treasury shares	Retained earnings	Gain on sale of treasury shares		
Balance at 31 December 2017	53,676	1,433	48,344	48,093	3,837	754	915	(11,209)	22,809	14	22	168,688
Impact of adopting IFRS9 at 1 January 2018 (Note 14)	-	-	-	-	-	-	-	-	(368)	-	-	(368)
Restated balance at 1 January 2018	53,676	1,433	48,344	48,093	3,837	754	915	(11,209)	22,441	14	-	168,320
Profit for the period	-	-	-	-	-	-	-	-	7,205	-	22	7,224
Foreign exchange losses	-	-	-	-	-	(23)	-	-	-	-	1	(23)
Change in fair value	-	-	-	-	41	-	-	-	-	-	-	41
Profit on sale of investments	-	-	-	-	(369)	-	-	-	369	-	-	-
Total comprehensive income for the period	-	-	-	-	(328)	(23)	-	-	7,574	-	1	(8,131)
Dividends (Note 17)	-	-	-	-	-	-	-	-	(8,131)	-	-	(8,131)
Balance at 30 September 2018	53,676	1,433	48,344	48,093	3,509	731	915	(11,209)	21,884	14	23	167,413
Balance at 1 January 2017	53,676	1,433	47,421	48,093	3,533	1,016	852	(11,189)	23,149	14	-	167,998
Profit for the period	-	-	-	-	-	-	-	-	7,302	-	-	7,304
Foreign exchange losses	-	-	-	-	-	(169)	-	-	-	-	-	(169)
Change in fair value of AFS	-	-	-	-	10	-	-	-	-	-	-	10
Total comprehensive income for the period	-	-	-	-	10	(169)	-	-	7,302	-	2	7,145
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	20	20
Dividends (Note 17)	-	-	-	-	-	-	-	-	(8,132)	-	-	(8,132)
Balance at 30 September 2017	53,676	1,433	47,421	48,093	3,543	847	852	(11,189)	22,319	14	22	167,031

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

Interim Condensed Consolidated Statement of Cash Flows for the nine-month period ended 30 September 2018
(Unaudited)

(All amounts are in Kuwaiti Dinar Thousand)

	Note	Nine-month period ended 30 September	
		2018	2017
Operating activities			
Profit before provisions for contribution to KFAS, NLST, Zakat and Directors' remuneration		7,615	7,707
Adjustments for:			
Depreciation		37	130
Increase in fair value of financial assets at FVTPL		(1,117)	(1,905)
Gain on sale of available-for-sale investments		-	(58)
Realised (gain)/ loss on financial assets at FVTPL		(25)	151
Interest income		(936)	(741)
Dividend income		(1,405)	(1,203)
Share of results of associates		(516)	(437)
Provision for staff indemnity		149	126
Provision for doubtful debts		1,927	3,052
Provision for credit loss expense		9	-
Foreign currency exchange gain on investment		(3)	-
		5,735	6,822
Decrease/ (increase) in instalment debtors		8,594	(348)
Increase in other receivables and prepayments		(723)	(249)
Decrease in trade creditors and other liabilities		(605)	(679)
Cash from operations		13,001	5,546
Staff indemnity paid		(34)	(347)
Interest received		936	741
Dividends received		1,238	1,203
Net cash from operating activities		15,141	7,143
Investing activities			
(Increase)/ decrease in deposits		(5,730)	2,544
Purchase of financial assets at FVTPL		(183)	(276)
Purchase of available-for-sale investments		-	(2,959)
Purchase of financial assets at FVOCI		(6,675)	-
Additional purchase of associate		(152)	-
Purchase of property and equipment		(221)	(4)
Proceeds from sale of financial assets at FVTPL		263	401
Proceeds from sale of financial assets at FVOCI		3,026	-
Proceeds from sale of available-for-sale investments		-	763
Proceeds from disposal of property and equipment		14	-
Dividends from associate		517	518
Net cash (used in)/ from investing activities		(9,141)	987
Financing activities			
Proceeds/ (repayment) of term loans		3,117	(10,095)
Dividends paid		(8,131)	(8,132)
Net cash used in financing activities		(5,014)	(18,227)
Net increase/ (decrease) in cash and cash equivalents		986	(10,097)
Cash and cash equivalents at beginning of the period		10,085	18,975
Cash and cash equivalents at end of the period	5	11,071	8,878

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

**Notes to the Interim Condensed Consolidated Financial Information for the nine-month period ended 30 September 2018
(Unaudited)**

(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

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 Parent Company's shares were listed on the Kuwait Stock Exchange on 29 September 1984.

The main activities of the Group represents in financing activities, investments and brokerage.

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

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 29 October 2018.

2. Basis of preparation and significant accounting policies

The interim condensed consolidated financial information of the Group have been prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting except as noted below.

The annual consolidated financial statements for the year ended 31 December 2017 were 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. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the previous financial year, except for the adoption of International Financial Reporting Standards (IFRS) which effective on the annual accounting period starting from 1 January 2018 as explained in note 3.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

Further, results for the nine months period ended 30 September 2018, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

3. Impact of changes in accounting policies due to adoption of new standards

The key changes to the Group's accounting policies resulting from its adoption of International Financial Reporting Standards (IFRS) which effective on the annual accounting period starting from 1 January 2018.

3.1 IFRS 15 - Revenue from Contracts with customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in no change in the revenue recognition policy of the Group in relation to its contracts with customers. Further, adoption of IFRS 15 had no impact on this interim condensed consolidated financial information of the Group.

3.2 IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on credit facilities which have been replaced by the Central Bank of Kuwait's requirements for credit losses. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification of financial assets and financial liabilities

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

**Notes to the Interim Condensed Consolidated Financial Information for the nine-month period ended 30 September 2018
(Unaudited)**

(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective and in order to generate contractual cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVTPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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.

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.

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.

**Notes to the Interim Condensed Consolidated Financial Information for the nine-month period ended 30 September 2018
(Unaudited)**

(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

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.

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 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.

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.

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.

**Notes to the Interim Condensed Consolidated Financial Information for the nine-month period ended 30 September 2018
(Unaudited)**

(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

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.

**Notes to the Interim Condensed Consolidated Financial Information for the nine-month period ended 30 September 2018
(Unaudited)**

(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

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.

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 2018.
- 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 14.

3.3 Other IFRS effective from 1 January 2018

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

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.

Notes to the Interim Condensed Consolidated Financial Information for the nine-month period ended 30 September 2018
(Unaudited)

(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

5. Cash and bank balances

	30 September 2018	31 December 2017 (Audited)	30 September 2017
Cash on hand	6	2	3
Bank balances	14,659	10,083	9,576
Deposits	23,375	18,020	17,912
	38,040	28,105	27,491
Less: Deposits with original maturity over three months	(23,375)	(18,020)	(17,912)
Less: Due to banks (Bank overdrafts)	(3,594)	-	(701)
Cash and cash equivalents as per consolidated statement of cash flows	11,071	10,085	8,878

The Group's deposits with local banks and foreign banks, denominated in KD, amount to KD 5 million (Nil - 31 December 2017 and Nil - 30 September 2017) and those denominated in USD and LBP with foreign banks based in the Middle East amount to KD 18,750 thousand (KD 18,020 thousand - 31 December 2017 and KD 17,912 thousand - 30 September 2017). These deposits yield interest ranging from 2.5% to 6.75% (4.50% to 6.45% - 31 December 2017 and 4.50% to 6.45% - 30 September 2017) per annum. (Refer to note 14 for the ECL impact).

6. Instalment debtors

The average interest rate earned from instalment credit for the nine-month period ended 30 September 2018 was 4.63% (4.37% - 31 December 2017 and 4.34% - 30 September 2017) per annum.

7. Investment securities

	30 September 2018	31 December 2017 (Audited)	30 September 2017
Financial assets at FVTPL	10,588	8,397	8,781
Investments at FVOCI	35,064	-	-
Available-for-sale investments			
Investments carried at fair value	-	32,485	29,765
Investments carried at cost	-	40	329
	45,652	40,922	38,875

8. Investments in associates

Investments in associated companies are as follows:

	Place of incorporation and operation	Proportion of ownership interest	Principal activity
Real Estate Facilities and Investment Company K.S.C.C	Kuwait	27.44%	Finance of real estate
Priority Automobile Company K.S.C.C.	Kuwait	44.56%	Renting and leasing of luxury cars

Group's share from associates results amount to KD 516 thousand for the period ended 30 September 2018 (KD 437 thousand - 30 September 2017). These financial information have been prepaid based on the financial information prepared by the associates' managements.

Notes to the Interim Condensed Consolidated Financial Information for the nine-month period ended 30 September 2018 (Unaudited)

(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

9. Term loans

	30 September 2018	31 December 2017 (Audited)	30 September 2017
Loans denominated in KD	133,576	150,454	150,673
Loans denominated in USD	29,047	9,052	13,585
	<u>162,623</u>	<u>159,506</u>	<u>164,258</u>

During the period, the Group signed KD loan agreements amounting to 53 Million (KD 53 million - 31 December 2017 and KD 40 million - 30 September 2017) and USD loans amounting to USD 50 million (Nil - 31 December 2017 and Nil - 30 September 2017).

The weighted average interest rate on KD loans outstanding at 30 September 2018 was 3.91% per annum and on USD loans was 3.46% per annum (3.68% per annum and 2.78% per annum respectively - 31 December 2017 and 3.66% per annum and 2.75% per annum respectively - 30 September 2017).

The Group's outstanding term loans at 30 September 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 209,259 thousand (KD 230,801 thousand - 31 December 2017 and KD 225,082 thousand - 30 September 2017) as security over 20 term loans (18 term loans - 31 December 2017 and 16 term loans - 30 September 2017) with balances outstanding of KD 162,623 thousand (KD 159,506 thousand - 31 December 2017 and KD 164,258 thousand - 30 September 2017).

10. 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		Nine-month period ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Salaries and other short-term benefits	104	103	313	309
Post-employment benefits	19	19	51	48
	<u>123</u>	<u>122</u>	<u>364</u>	<u>357</u>
b) Instalment debtors				
Balance at 1 January				
Loan advance received			37	39
Instalment repayments received			-	32
Balance at 30 September			<u>(14)</u>	<u>(27)</u>
			<u>23</u>	<u>44</u>

11. Treasury shares

	30 September 2018	31 December 2017 (Audited)	30 September 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)	5,035	4,863	5,384
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 is required to retain reserves and retained earnings equivalent to the cost of treasury shares throughout the period, in which they are held by the Parent Company, in accordance with the instructions of the relevant regulatory authorities.

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(Unaudited)

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12. Net gains from investments

	Three-month period ended		Nine-month period ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Changes in fair value	643	1,105	1,117	1,905
Realised gain on sale of available-for-sale investments	-	3	-	58
Realised gain/ (loss) on sale of financial assets at FVTPL	-	33	25	(151)
Dividend income	305	234	1,405	1,203
	<u>948</u>	<u>1,375</u>	<u>2,547</u>	<u>3,015</u>

13. Earnings per share

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

	Three-month period ended		Nine-month period ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Profit for the period	<u>2,653</u>	<u>2,940</u>	<u>7,205</u>	<u>7,302</u>
	Shares			
Weighted average number of the Parent Company's issued and paid-up shares (000's)	536,764	536,764	536,764	536,764
Weighted average number of the Parent Company's treasury shares (000's)	<u>(28,608)</u>	<u>(28,487)</u>	<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>	<u>508,156</u>	<u>508,277</u>
Earnings per share	<u>5 Fils</u>	<u>6 Fils</u>	<u>14 Fils</u>	<u>14 Fils</u>

14. 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
Financial assets					
Cash and bank balances	Loans and receivables	Amortised cost			
Other receivables	Loans and receivables	Amortised cost	28,105	(366)	27,739
Instalment debtors	Loans and receivables	Amortised cost	1,314	-	1,314
Investment securities			248,308	-	248,308
- 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.

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(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

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
Closing balance under IAS 39 (31 December 2017)	22,809
Impact on recognition of ECL:	
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
Debt investment securities measured at FVOCI	-	2	2
Other financial assets measured at amortised cost	-	366	366
Total expected credit losses	-	<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:

	Three-month period ended 30 September 2018			
	Stage 1	Stage 2	Stage 3	Total
Bank balances	(27)	-	-	(27)
	Stage 1	Stage 2	Stage 3	Total
Bank balances	9	-	-	9

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

15. 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:

	Kuwait	International	Total
At 30 September 2018			
Profit before provisions for contribution to KFAS, NLST, Zakat and Directors' remuneration	6,114	1,501	7,615
Total assets	297,035	46,715	343,750
Total liabilities	(147,290)	(29,047)	(176,337)
Net assets employed	<u>149,745</u>	<u>17,668</u>	<u>167,413</u>
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	<u>134,537</u>	<u>34,151</u>	<u>168,688</u>
At 30 September 2017			
Profit before provisions for contribution to KFAS, NLST, Zakat and Directors' remuneration	6,388	1,319	7,707
Total assets	300,026	41,148	341,174
Total liabilities	(160,558)	(13,585)	(174,143)
Net assets employed	<u>139,468</u>	<u>27,563</u>	<u>167,031</u>

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(All amounts are in Kuwaiti Dinar Thousand unless otherwise stated)

16. Commitments

The Group has capital commitments of KD 44 thousand (KD 44 thousand - 31 December 2017 and KD 44 thousand - 30 September 2017) on purchase of investments.

17. 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 (16 fils per share - 2017) amounting to KD 8,131 thousand (KD 8,132 thousand - 2017).

18. 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.

19. 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).

Financial assets	Fair value as at			Fair value Hierarchy	Sector
	30 September 2018	31 December 2017 (Audited)	30 September 2017		
Financial assets at FVTPL - Quoted securities	8,947 497 -	7,859 538 -	7,070 571 1,140	Level 1 Level 1 Level 1	Financial Institutions Real estate Retail
Financial assets at FVTPL - Debt securities	1,144	-	-	Level 2	Financial Institutions
Financial assets at FVOIC - Unquoted debt	6,650 2,500 10,294	7,780 700 8,480	7,030 700 7,730	Level 2 Level 2 Level 2	Financial Institutions Real estate
Financial assets at FVTPL - Unquoted funds	13 49 -	75 127 47	77 127 47	Level 3 Level 3 Level 3	Media & technology Real estate Retail
Financial assets at FVOIC - Unquoted securities	17,164 7,253 1,271 164 25,914 45,652	15,713 6,440 1,433 170 24,005 40,882	13,741 6,417 1,458 168 22,035 38,546	Level 3 Level 3 Level 3 Level 3 Level 3 Level 3	Real estate Financial Institutions Service Manufacturing

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Movement in level 3 is as follows:

	30 September 2018	31 December 2017 (Audited)	30 September 2017
Opening balance	24,005	19,339	19,339
Total gain or losses:			
- in profit or loss	369	(71)	46
- in other comprehensive income	(346)	146	(146)
Purchases/ transfers	4,210	6,101	3,546
Sales	(2,324)	(1,510)	(750)
Closing balance	25,914	24,005	22,035

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

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.