KMEFIC

25 Years of Success

Annual Report 2009

K M E F I C

Contents

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H.H. Sheikh Nawaf Al-Ahmad
Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

H.H. Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh Nasser Al-Mohammed
Al-Ahmed Al-Sabah
Prime Minister of the State of Kuwait

Board of Directors

1- **Hamed Hamad Al Sanee** Chairman & Managing Director
2- **Nasser Barrak Al-Mutair** Vice Chairman
3- **Hamad A. Al-Marzouq** Director
4- **Khaled Mohammed Makhlouf** Director
5- **Adel El-Labban** Director
6- **Hershel Post** Director
7- **Prakash Mohan** Director

Economic fundamentals suggest that the outlook for investment is gradually improving; however more time is needed to restore the long-term trend

Chairman's Message

Dear Shareholders

2009 was a year of extreme volatility for financial services companies. It began with a downward spiral of world capital markets which extended the previous year's lows to a new bottom accelerated by global panic selling of most asset classes and a flight to the safest assets. In retrospect, this year was also a turning point where coordinated government interventions began to stabilize key market indicators to stave off a collapse of the global economy. With active and implied government assurances to key industries and specifically the financial sector, investors' confidence was renewed thereby sparking a series of global rallies across asset classes reversing most of the year's losses. While this global financial crisis is far from over, there is room now for cautious optimism. Many of the current market characteristics such as a depressed real estate sector, low rates, moderate commodity prices, increased regulation, improved corporate risk management, and the resilience of important emerging markets will act as catalysts to an eventual recovery. This eventual recovery will be a cross road as the world's focus shifts from developed nations to the emerging economic powerhouses that will shape the middle part of this century and beyond – China, Brazil and India.

Within the GCC region, all markets ended the year positively except for Kuwait and Bahrain. The different shades of GCC country performance were attributable to the degree of sector exposure, diversification, transparency, and regulatory oversight as well as the level of government action. Like the rest of the world, the GCC will be digesting the toxic assets and defaults of many large conglomerates considered too big to fail. On the other hand, this will be moderated by a stabilized market for crude oil with improving demand and the prospects for higher prices on the back of further global recovery. The disparity in 2009 was great, with local equity markets performance ranging from -19.17% for Bahrain to 27.46% for Saudi. The first quarter market lows were largely erased by year's end, but sector and security selection were critical factors to realise these returns. Overall trading volumes during the year improved by 17.39%, while overall trading value plunged by 40.85% with regional market capitalization experiencing an increase of 16.33%.

GCC Economies Overview

The GCC economies' recovery was not fully dependant on oil markets. Although abundant oil resources and accumulated assets have helped these economies mitigate the crisis' severe losses and damages, any future success relies on attracting investments to the private sector.

In 2008, the GCC's Oil GDP grew by 5.8% on average, then contracted by 5.2% in 2009. In 2010, the IMF forecasts that oil GDP will recover smoothly and grow by 5.5% on average. In oil-export oriented countries like Saudi Arabia, Kuwait and UAE, oil sector GDP is expected to grow by 10.3% 5.4% and 4.5% respectively.

Qatar and less oil-dependent countries, namely Oman and Bahrain, are expected to demonstrate positive growth by 25.2%, 2.8% and 0.1% in their respective oil sectors during 2010.

The non-oil sector's fragility (the level of dependency on oil income) is most significant in Kuwait, Qatar and the UAE. The latter's proportion of non-oil GDP fell from 8.6% in 2008 to 1.1% in 2009, in Qatar from 14.5% to 9.0% and in Kuwait from 7.9% to 1.2%. Saudi Arabia's non-oil sector income remained robust in 2009, recording only a minor fall of one percentage point from 4.3% in 2008 to 3.3% in 2009.

Economic fundamentals suggest that the outlook for investment is gradually improving; however more time is needed to restore the long-term trend. Compared to Credit Default Swap (CDS) rates recorded in late 2008 and early 2009, the latest updates in CDS hints that signs of recovery and stability started appearing in the GCC. Despite the fact that a considerable number of mega projects have been cancelled in the region and that the IMF slashed GDP growth rates for the third time in a single year, there are signs of positive sentiment across the region. This air of optimism is backed by rising commodity prices such as Gold and Oil in addition to recent activities in fixed income markets such as large sovereign bond issuances. Dubai and Abu Dhabi managed to shrink their CDS spreads from 670 bps in Dec 2008 to 445 bps in Dec 2009 and from 255 bps to 151 bps respectively.

Following the 2008 financial chaos, the leading GCC equity markets paved a strong recovery. The Saudi Stock Exchange led the region's equity markets adding 27.46%. Qatar Exchange concluded 2009 almost flat while only Kuwait and Bahrain bourses lagged behind 2008 levels with the latter dipping by 19% while the former's price index dropped by 10%.

As per the latest IMF growth forecasts for the GCC, the UAE's real GDP which had historically dominated the top position has now dropped to the bottom of the list with an average growth rate of 3.3% in GDP for the period 2009-2014. On the other hand, Bahrain maintains a strong position in the list over the forecasted period with 4.3% as the second fastest growing economy after Qatar. The Sultanate of Oman now holds third rank with 3.8% while Saudi Arabia and Kuwait rank fourth and fifth with 3.7% and 3.4% respectively.

Plentiful surpluses launched the wave of government backed mega projects fuelled by proceeds from oil prices which stabilized below $79 in late 2009 and are projected to remain above a sustainable $75 per barrel during 2010. Various types of real estate and infrastructure investment projects will be the main catalysts driving significant growth in the non-oil sectors of GCC economies. With anticipated strong oil demand and improving capital market conditions, we expect the outlook for the GCC to offer strong growth in the long run.

Company's Performance

2009 was a disappointing year for the Kuwaiti capital markets, which reflected on KMEFIC's performance negatively and led the company to achieve total revenue of KD 6.84 million which is lower by 62% compared to KD 17.82 million revenue in the previous year. During the year, the main contributors to total income were commission income and management fees. Commission income contributed KD 3.07 million (lower by 52% compared to KD 6.37 million in the previous year) representing approximately 45% of total revenue. This is followed by management fees at KD 3.05 million (lower by 54% compared to KD 6.72 million in the previous year) which represented approximately 45% of the total revenue. Interest income stood at KD 1.11 million (lower by 38% compared to KD 1.78 million in the previous year) constituting 16% of total revenue. The decline in management fees was due mainly to the drop in assets under management during 2009 by KD 283 million or 29% to reach KD 690 million (USD 2,405 million) compared to KD 973 million (USD 3,526 million) in 2008.

On the other hand, KMEFIC's investments at fair value through profit and loss account produced a total loss of KD 138 thousand (compared to a total loss of KD 4.39 million in the previous year). Investments Available for Sale generated a marginal gain of KD 38 thousand (as compared to a total profit of KD 6.1 million in the

KMEFIC intensified its research efforts for redeployment of capital into areas offering more stable investment returns

previous year). These investments are inclusive of the company's proprietary investments in our own funds as well as other local, regional and international mutual funds and hedge funds.

While total income dropped by 62%, total operating expenses also dropped by 38% during the year to KD 7.7 million primarily on account of lower staff expenses. The provision on Receivables and Available for Sale Investments increased by KD 8.6 million as compared to KD 1.4 million in the previous year. In order to deal with the current financial crisis, we have taken some major cost cutting measures, the effects of which have been reflected in the cost of operations. A combination of the above factors led the company to achieve a net loss of KD 9.44 million as compared to net profit of KD 3.93 million in 2008. This translated into diluted loss per share of (36.2) fils in 2009 compared to earnings per share of 15.1 fils in 2008.

Asset Management

During this volatile year, KMEFIC applied a dynamic approach to managing assets. With conservative risk constraints in place to minimize losses following the sharp declines of the previous year, KMEFIC intensified its research efforts for redeployment of capital into areas offering more stable investment returns. Building upon this research-driven investment process, client allocations to asset classes, sectors and securities were prudently managed toward theme-oriented investment strategies based on high conviction. By the end of year, results for KMEFIC's strategies and portfolios displayed strong relative performance, with both equity Funds and Kuwait Separately Managed Accounts outperforming their respective benchmarks. Within Financial Derivatives, the futures and forwards portfolios also outperformed the KSE extending the previous year's strong relative performance.

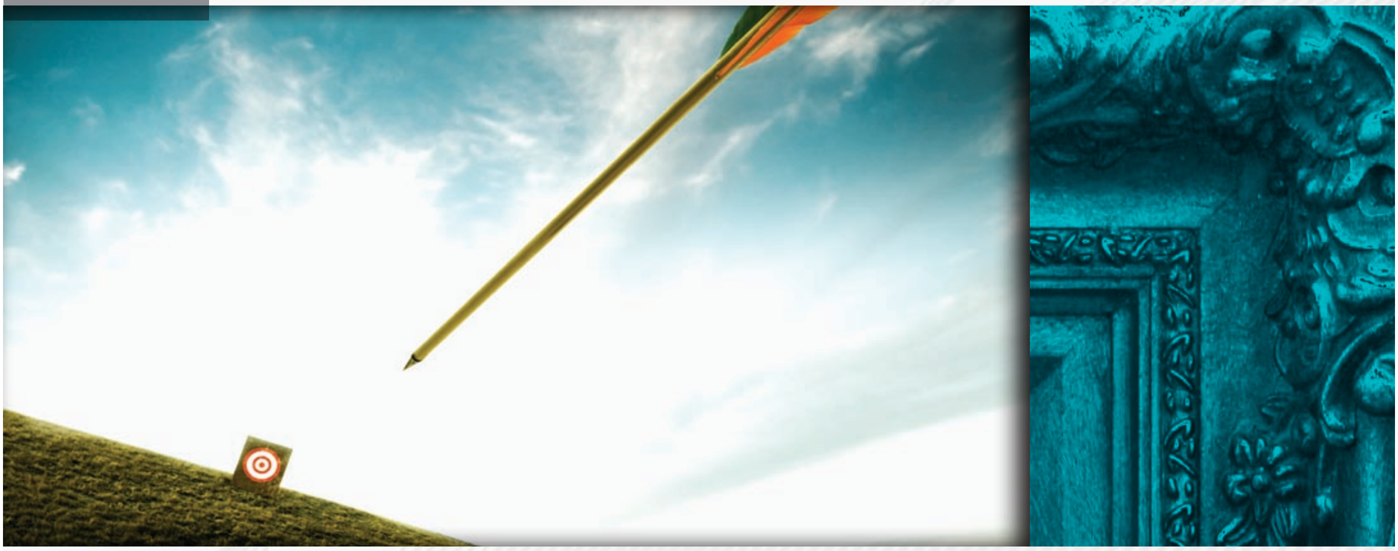
Though KMEFIC was not immune to the serious economic factors affecting private equity and real estate direct investments, these impairments were isolated and carefully managed to minimize losses.

While KMEFIC's asset management business ended the year with an operating loss due to write-downs associated with specific non-performing assets, it generated a positive run rate in net operating profit had it not been for these items. Finally, while the end of the first decade will be recorded as a period of negative returns for major markets, we are optimistic that in the next decade new opportunities will rebound in global capital markets and currently distressed markets will experience moderately positive returns as they revert to the long run mean.

Due to the impact of the global financial crisis on local and GCC capital markets, KMEFIC's Money Market Funds faced a severe lack of market liquidity. The resulting Funds' illiquidity was further exacerbated by financial hardship suffered by several of the Funds' investments, thereby creating additional stress on the Funds. In response, KMEFIC initiated aggressive actions to minimize adverse impacts by suspending all redemptions from money market funds. KMEFIC's management team is working diligently on a daily basis to resolve this issue in order to preserve client capital, minimize client impact and achieve total distributions as soon as possible. Throughout the year, the Funds have made significant distributions to the shareholders in varying amounts.

2010 Business Transformation and Launch of GCC Asset Management

Building upon a changed investment landscape and investor perspectives, KMEFIC will be launching a comprehensive asset management program based on tailored products and services



designed to implement a more balanced approach for wealth management with the needs of GCC high net worth and institutional clients in mind. Customized based on either Shari'a or conventional investment philosophies, KMEFIC's strategies will incorporate private investment opportunities across several asset classes drawing upon GCC market making capability, leading buy-side research, sophisticated portfolio management technology offering true multi-asset, multi-currency, multi-manager execution and KMEFIC's new Advisory services. KMEFIC's asset management platform will enhance the GCC client experience significantly for investments in the GCC while providing institutional transparency and confidence through comprehensive client reporting and online account access.

We are excited about the 2010 launch of KMEFIC's new and enhanced asset management line of business and look forward to communicating developments which will generate new revenue streams and another KMEFIC first for both Kuwait and the GCC.

Brokerage

During 2009, the income streams were derived primarily from the brokerage operations and Alawsat.com online trading in Kuwait, UAE, Oman and Jordan represented by our subsidiaries: Middle East Financial Brokerage Company (MEFBC-Kuwait), Middle East Financial Brokerage Company (MEFBC-UAE), Middle East Brokerage Company (MEBC-Oman), and Kuwait and Middle East Financial Investment Company (KMEFIC-Jordan) respectively. These four wholly owned subsidiaries have well complemented our online trading business and further helped KMEFIC to diversify its income stream.

Online Services

We continue to pursue our vision of translating technological innovations into profitable ventures and strive to attain profitability by harnessing the current potential of technology for new and diversified services and products for the future.

In 2009, KMEFIC successfully launched the electronic routing to the Saudi Stock Exchange. The active connections now include the markets of Dubai, Abu Dhabi, Kuwait and Oman in addition to the U.S. markets. We continue to strive to offer trading on as many markets as possible in the MENA.

Moreover, KMEFIC was the first in the region to launch the online trading platform Alawsat.com in 2002. By focusing on technology, KMEFIC managed to obtain a regional competitive advantage. KMEFIC began to diversify and offer White Labeling services in the same year.

KMEFIC offered DMA (Direct Market Access) to major Middle East capital markets through its FIX HUB which was implemented back in 2005, as the first FIX gateway to Kuwait Stock Exchange and GCC markets at once. FIX HUB is provided to B2B clients thereby facilitating connectivity and eliminating trading constraints.

Corporate Finance

A full fledged Corporate Finance Division was established by KMEFIC in the year 2007 and the division started providing comprehensive corporate finance services for the KMEFIC Group and its clients. The division has secured mandates for offering financial advisory services and fundraising to companies/projects including a mega project. However, due to the prevailing global and regional economic conditions, execution of the secured mandates is expected to be completed by the last quarter of 2010. The division is in the final stages of securing a number of big ticket advisory/M&A assignments which are expected to materialise in the current year.

our outlook is optimistic and we are looking forward to exploring new investment opportunities with signs of the recovery in the world especially GCC and local markets

Research

The KMEFIC Research Department was purposely designed to support the investment decision making process in addition to supporting the brokerage line of business. The department team strives to fulfill its role while maintaining rigorous standards to guarantee the production of high quality research.

In 2009, KMEFIC's Research Department successfully pursued its development plans in expanding its line of products to cater to a wider variety of brokerage operations client needs. Despite the main focus on stock markets reports, our research team continued to concentrate on both equity and macroeconomic research. The department enriched its daily bouquet of products offering investors more insight into the GCC Capital markets, namely in corporate results and capitalization details. In the equity analysis line, KMEFIC research covered the telecommunications sector, in addition to the aviation and petrochemical sectors and finally, the cement sector. Geographically, our coverage in equity analysis started with Kuwait (KSE) and spread to reach UAE (DFM), Oman (MSM), and Saudi Arabia (SSE) during 2009. The Economic Research unit continued its coverage of the GCC as a region, in addition to its individual countries. A new group of products for the department is underway such as central banks and fixed income markets coverage.

Closing Thoughts and Outlook

2009 was challenging year that creates difficult operating conditions for financial institutions around the world. In response, KMEFIC rapidly adjusted to the new market reality and reallocated resources by focusing business plans.

The global economic recovery is expected to be sustainable throughout the year 2010. Regionally, legislative and regulatory improvements are underway to improve transparency and corporate governance, thereby triggering a pickup in foreign investment and inflows.

At KMEFIC, our outlook is optimistic and we are looking forward to exploring new investment opportunities with signs of the recovery in the world especially GCC and local markets.

KMEFIC enters 2010 focused on improving financial strength and quality of assets. This is aided by a solid ownership group that is managed with the highest degree of professionalism that is successfully navigating the global financial crisis.

KMEFIC is also developing several innovative investment products and strategies to offer to clients to best suit the current economic and financial situation. These products include equity, real estate and bond funds with solid institutional structures which will ensure success and high returns.

Finally, I would like to extend my sincere appreciation and thankfulness to all of KMEFIC's management and staff for their continued loyalty, perseverance and commitment which will enable the company to go forward and achieve its goals and objectives in the New Year.

Hamed Hamad Al-Sanee
Chairman & Managing Director

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Auditors' Report

Independent to the Shareholders of Kuwait And Middle East Financial Investment Company K.S.C. (Closed)

We have audited the accompanying consolidated financial statements of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) (the "company") and its subsidiaries (together, the "group") which comprise the consolidated statement of financial position as at 31 December 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The management of the company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on other legal and regulatory matters

Furthermore, in our opinion, proper books of account have been kept by the company and the consolidated financial statements, along with the contents of the 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 information that is required by the Commercial Companies Law of 1960, as amended and by the company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no material violations of the Commercial Companies Law of 1960, as amended nor of the articles of association have occurred during the year ended 31 December 2009 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 audit, we have not become aware of any material 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, during the year ended 31 December 2009.

Waleed A. Al Osaimi
Licence No. 68 A
Of Ernst & Young

Bader A. Al Wazzan
Licence No. 62 A
Pricewaterhouse Coopers

14 February 2010
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	31 December 2009 KD	31 December 2008 KD
Assets			
Cash and cash equivalents	3	3,444,002	4,727,573
Term deposits	4	427,019	2,343,615
Investments at fair value through income statement	5	35,682	5,241,843
Investments available for sale	6	23,477,289	29,886,064
Loans and advances	7	14,417,679	15,485,839
Investment in an associate	8	8,230,834	8,048,349
Investment properties	9	8,540,664	-
Other assets	10	6,233,160	9,145,370
Intangible assets	11	12,757,532	12,691,532
Equipment	12	8,671,760	7,536,351
Total assets		86,235,621	95,106,536
Liabilities and equity			
Liabilities			
Loans from banks and financial institutions	13	36,612,364	36,196,800
Accounts payable and other liabilities	14	2,994,477	3,703,239
Total liabilities		39,606,841	39,900,039
Equity	15		
Share capital		26,381,499	23,936,755
Treasury shares		(1,174,880)	(1,139,220)
Share premium		1,157,687	1,157,687
Statutory reserve		6,707,958	6,707,958
General reserve		6,379,860	6,379,860
Retained earnings		1,967,353	13,808,268
Fair valuation reserve		600,097	(812,248)
Foreign currency translation reserve		(18,556)	(270,141)
Treasury shares reserve		2,042,260	2,042,260
Share options reserve		753,743	753,743
Equity attributable to shareholders of the company		44,797,021	52,564,922
Non-controlling interests		1,831,759	2,641,575
Total equity		46,628,780	55,206,497
Total liabilities and equity		86,235,621	95,106,536

Hamed Hamad Al Sanee
Chairman & Managing Director

The attached notes 1 to 26 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2009

	Notes	31 December 2009 KD	31 December 2008 KD
Income			
Management fees	21	3,026,638	6,506,408
Performance fees	21	26,867	212,671
Interest income	16	1,108,760	1,776,322
Commission income		3,065,702	6,369,821
Placement fees		5,420	891,638
Unrealised loss on investments at fair value through income statement		(13,645)	(1,769,897)
Realised loss on disposal of investment at fair value through income statement		(124,247)	(2,617,716)
Gain on disposal of investments available for sale	6	37,513	6,086,962
Dividend income		175,986	921,117
Share of results from an associate	8	(244,184)	(774,783)
Foreign exchange (loss)/gain		(65,872)	191,211
Other (expense)/ income		(161,099)	24,863
Net operating income		6,837,839	17,818,617
Expenses			
Staff expenses		3,629,996	5,920,375
Other operating expenses		1,950,760	3,217,416
Depreciation and amortization		849,636	759,393
Interest expense	16	1,278,634	2,119,794
Operating expenses		7,709,026	12,016,978
Operating (loss)/profit before provision for impairment of loans and advances and other assets, and impairment loss on investment available for sale		(871,187)	5,801,639
Provision/(reversal) for impairment of loans and advances and other assets		2,823,850	(86,546)
Impairment loss on investments available for sale		5,759,387	1,465,131
(Loss) profit before contribution to Kuwait Foundation for Advancement of Science (KFAS), National Labour Support Tax (NLST), Zakat and Directors' fees		(9,454,424)	4,423,054
Contribution to KFAS		-	(38,034)
NLST		-	(93,850)
Zakat		-	(39,577)
Directors' fees		-	(114,000)
(Loss) profit for the year		(9,454,424)	4,137,593
Attributable to:			
Shareholders of the company		(9442,597)	3,933,942
Non-controlling interests		(11,827)	203,651
		(9,454,424)	4,137,593
Basic and Diluted (Loss) Earnings Per Share (Fils)	17	(36.2)	15.1

The attached notes 1 to 26 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 KD	2008 KD
(Loss) profit for the year	**(9,454,424)**	4,137,593
Other comprehensive income		
Exchange differences on translation of foreign operations	**574,990**	81,844
Net loss on hedge of net investments (Note 13)	**(323,405)**	-
Net unrealised loss on investments available for sale	**(4,312,797)**	(5,530,984)
Net realised gain transferred to consolidated statement of income on disposal of investments available for sale	**(37,513)**	(2,617,716)
Impairment loss on investments available for sale transferred to consolidated statement of income	**5,759,387**	1,465,131
Other comprehensive income for the year	**1,660,662**	(6,601,725)
Total comprehensive income for the year	**(7,793,762)**	(2,464,132)
Attributable to:		
Shareholders of the company	**(7,778,667)**	(2,667,783)
Non-controlling interests	**(15,095)**	203,651
	(7,793,762)	(2,464,132)

The attached notes 1 to 26 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2009

	Attributable to the shareholders of the company											
	Share capital KD	Treasury shares KD	Share premium KD	Statutory reserve KD	General reserve KD	Retained earnings KD	Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Share options reserve KD	Non controlling interests KD	Total KD
Balance at 1 January 2009	23,936,755	(1,139,220)	1,157,687	6,707,958	6,379,860	13,808,268	(812,248)	(270,141)	2,042,260	753,743	2,641,575	55,206,497
Loss for the year	-	-	-	-	-	(9,442,597)	-	-	-	-	(11,827)	(9,454,424)
Other comprehensive income for the year	-	-	-	-	-	-	1,412,345	251,585	-	-	(3,268)	1,660,662
Total comprehensive income for the year	-	-	-	-	-	(9,442,597)	1,412,345	251,585	-	-	(15,095)	(7,793,762)
Issue of bonus shares (Note 15)	2,398,318	-	-	-	-	(2,398,318)	-	-	-	-	-	-
Equity share options issued to employees	46,426	-	-	-	-	-	-	-	-	-	-	46,426
Purchase of treasury shares	-	(35,660)	-	-	-	-	-	-	-	-	-	(35,660)
Other movement in equity of a subsidiary (Note 2)	-	-	-	-	-	-	-	-	-	-	(794,721)	(794,721)
Balance at 31 December 2009	**26,381,499**	**(1,174,880)**	**1,157,687**	**6,707,958**	**6,379,860**	**1,967,353**	**600,097**	**(18,556)**	**2,042,260**	**753,743**	**1,831,759**	**46,628,780**
Balance at 1 January 2008	21,540,163	-	746,868	6,286,018	5,853,912	19,448,231	5,871,321	(351,985)	2,035,686	753,743	2,426,941	64,610,898
Profit for the year	-	-	-	-	-	3,933,942	-	-	-	-	203,651	4,137,593
Other comprehensive income for the year	-	-	-	-	-	-	(6,683,569)	81,844	-	-	-	(6,601,725)
Total comprehensive income for the year	-	-	-	-	-	3,933,942	(6,683,569)	81,844	-	-	203,651	(2,464,132)
Dividends	-	-	-	-	-	(6,438,965)	-	-	-	-	-	(6,438,965)
Issue of bonus shares	2,176,069	-	-	-	-	(2,176,069)	-	-	-	-	-	-
Transfer to reserves (Note 15)	-	-	-	421,940	525,948	(947,888)	-	-	-	-	-	-
Equity share options issued to employees	220,523	-	410,819	-	-	-	-	-	-	-	-	631,342
Purchase of treasury shares	-	(1,582,168)	-	-	-	-	-	-	-	-	-	(1,582,168)
Sale of treasury shares	-	442,948	-	-	-	-	-	-	6,574	-	-	449,522
Other movement in equity of subsidiary	-	-	-	-	-	(10,983)	-	-	-	-	10,983	-
Balance at 31 December 2008	23,936,755	(1,139,220)	1,157,687	6,707,958	6,379,860	13,808,268	(812,248)	(270,141)	2,042,260	753,743	2,641,575	55,206,497

The attached notes 1 to 26 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	31 December 2009 KD	31 December 2008 KD
Operating activities			
(Loss) profit for the year		(9,454,424)	4,137,593
Adjustments:			
Interest income		(1,108,760)	(1,776,322)
Unrealised loss on investments at fair value through income statement		13,645	1,769,897
Gain on disposal of investments available for sale		(37,513)	(6,086,962)
Dividend income		(175,986)	(921,117)
Share of results from an associate		244,184	774,783
Depreciation and amortisation		849,636	759,393
Interest expense		1,278,634	2,119,794
Equipment written off		230,191	-
Provision/(reversals) for impairment of loans and advances and other assets		2,823,850	(86,546)
Impairment loss on investments available for sale		5,759,387	1,465,131
Operating income before changes in operating assets and liabilities		422,844	2,155,644
Investments at fair value through income statement		5,192,516	(890,952)
Loans and advances		1,005,673	(1,577,309)
Other assets		79,070	513,938
Accounts payable and other liabilities		(870,650)	(1,694,190)
Interest income received		779,715	1,510,049
Net cash from operating activities		6,609,168	17,180
Investing activities			
Fixed deposit matured/(invested)		1,916,596	(2,343,615)
Purchase of investments available for sale		(3,435,808)	(7,413,409)
Proceeds from sale of investments available for sale		5,759,756	25,094,653
Purchase of investment properties		(8,540,664)	-
Purchase of equipment	12	(2,155,063)	(4,128,384)
Disposal of equipment		-	5,194
Dividend income received		175,986	921,117
Net cash (used in)/from investing activities		(6,279,197)	12,135,556
Financing activities			
New loans from banks and financial institutions		26,960,000	21,956,464
Repayment of loans from banks and financial institutions		(26,626,415)	(29,009,631)
Purchase of treasury shares		(35,660)	(1,582,168)
Proceeds from sale of treasury shares		-	449,522
Proceeds from employee share option plan		-	631,342
Dividends paid		-	(6,438,965)
Interest expenses paid		(1,116,746)	(1,833,369)
Other movement in non-controlling interests		(794,721)	-
Net cash used in financing activities		(1,613,542)	(15,826,805)
Decrease in cash and cash equivalents		(1,283,571)	(3,674,069)
Cash and cash equivalents at beginning of the year		4,727,573	8,401,642
Cash and cash Equivalents at end of the year	3	3,444,002	4,727,573

The attached notes 1 to 26 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2009

1- CORPORATE INFORMATION

Kuwait and Middle East Financial Investment Company K.S.C. (Closed) (the "company") is a Kuwaiti shareholding company incorporated on 1 January 1984. The company and its subsidiaries (together, the "group") are engaged in carrying out investment, portfolio management and brokerage activities on its own account and for clients. The company's registered office is at 15th floor, Burj Al Jassem Building, Al Sour Street, Kuwait City, Kuwait.

The company' shares are listed on the Kuwait Stock Exchange. The company is a subsidiary of The Bank of Kuwait and The Middle East K.S.C. (the "parent company"), which is also listed on the Kuwait Stock Exchange. The parent company is a subsidiary of Ahli United Bank B.S.C., a Bahraini bank (the "ultimate parent company"), listed on the Bahrain and Kuwait Stock Exchanges.

The consolidated financial statements of the group for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the board of directors on 14 February 2010. The shareholders of the company have the power to amend these consolidated financial statements at the annual general meeting.

2- SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the group 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 Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the International Accounting Standard IAS 39: Financial Instruments: Recognition and Measurement requirement for a collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under Note 7.

These consolidated financial statements are prepared under the historical cost convention as modified by revaluation at fair value of investments at fair value through income statement and investments available for sale.

The consolidated financial statements are presented in Kuwaiti Dinars (KD), which is the functional currency of the company.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except that the group has adopted the policy on 'Investment properties' in accordance with IAS 40: Investment Property, 'Hedge accounting' in accordance with IAS 39: Financial Instrument: Recognition and Measurement and the following new and amended standards effective for the annual periods beginning on or after 1 January 2009:

IAS 1 Presentation of Financial Statements (Revised)

The revised standard separates owner and non-owner changes in shareholders' equity. The statement of changes in shareholders' equity includes only details of transactions with owners, with non-owner changes in shareholders' equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The group has elected to present two statements.

IFRS 8 Operating segments

The new standard which replaced IAS 14 'Segment reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker.

IFRS 2 Share based payment (Revised)

The amended standard clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The amendment did not have an impact on the financial position or performance of the group.

IFRS 7: Financial Instruments: Disclosures (Amended)

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is required, as well as significant transfers between levels in the fair value hierarchy.

IAS 23 (Revised 2007) 'Borrowing costs'

The revised standard requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The revision does not have any impact on the accounting policies and disclosure requirements in the group's consolidated financial statements as the group is already capitalising the borrowing costs attributable to the qualifying assets.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued but not yet adopted

IFRS 3(Revised) Business Combinations and IAS 27(Amended) Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after the effective date. The changes will affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

IFRS 9 Financial Instruments

The standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2013. The new standard enhances the ability of investors and other users of financial information to understand the accounting of financial assets and reduces complexity. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used.

IAS 24 Related party (Revised)

The revised Standard was issued in November 2009. An entity shall apply this Standard retrospectively for annual periods beginning on or after 1 January 2011. The revised standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

The application of these standards will be made in the consolidated financial statements when these standards and interpretations become effective and are not expected to have a material impact on the consolidated financial statement of the group.

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2009. The financial statements of the subsidiaries for the purpose of consolidation are prepared for the same reporting year and using consistent accounting policies as followed by the company.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All material intra-group balances and transactions, including material unrealised gains and losses arising on intra-group transactions, have been eliminated on consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the group had control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Non controlling interest represents the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position separately from equity attributable to the equity holders of the parent company.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding 2009	2008
Online Soft Computer Systems Company K.S.C.C.	Kuwait	Online brokerage	100%	100%
Al Awsat First Holding Company K.S.C.C.	Kuwait	Holding company	100%	100%
Middle East Financial Brokerage Company L.L.C.	U.A.E.	Brokerage	100%	100%
Middle East Brokerage Company L.L.C.	Oman	Brokerage	100%	100%
Egypt & Middle East Brokerage Company	Egypt	Brokerage	100%	100%
Kuwait & Middle East Financial Investment Company	Jordan	Brokerage	-	100%
Middle East Financial Brokerage Company K.S.C. ('MEFBC)*	Kuwait	Brokerage	90%	90%
Held through MEFBC				
Kuwait & Middle East Financial Investment Company	Jordan	Brokerage	100%	-

All investments in subsidiaries are pledged as security for the loan obtained from Ahli United Bank B.S.C., Bahrain (Note 13).

On 1 August 2009, the ownership in the wholly owned subsidiary of the company, Kuwait & Middle East Financial Investment Company, Jordan was transferred to Middle East Financial Brokerage Company K.S.C. (Closed), a 90% owned subsidiary of the company at carrying value amounting to KD 1,934,715. No goodwill arose on this reorganisation as this represents a transaction between two entities within the group.

* The Annual General Assembly of MEFBC held on 26 July 2009 approved the reduction of its paid-up share capital from KD 23,625,000 to KD 17,500,000 and accordingly returned the capital contribution to its shareholders as on 26 July 2009. As a result, an amount of KD 612,500 has been paid to the equity holders of the non controlling interest of the subsidiary.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and short-term deposits with original maturities of three months or less.

Financial assets and liabilities

Financial assets and financial liabilities are classified as "investments at fair value through income statement", "loans and receivables", "investments available for sale" and "financial liabilities other than at fair value through income statement". Management determines the appropriate classification of each instrument at the time of acquisition.

Financial assets and liabilities are measured initially at fair value plus, in the case of a financial asset not at fair value through income statement, directly attributable transaction costs. Transaction costs on investments at fair value through income statement are expensed immediately.

Investment at fair value through income statement

Investments at fair value through income statement include financial assets held for trading and financial assets designated upon initial recognition at fair value through income statement. This includes all derivative financial instruments, other than those designated as effective hedging instruments. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

After initial recognition, investments at fair value through income statement are carried in the consolidated statement of financial position at fair value with all changes in fair value recognised in the consolidated statement of income.

Investments available for sale

Investments available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as investments at fair value through income statement or loans and receivables.

After initial recognition, investments available for sale are measured at fair value with unrealised gains and losses recognised as other comprehensive income in a separate component of equity until the investments are derecognised or until the investments are determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost, less any impairment.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Loans and receivables

Loans and receivables 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.

Loans and advances, cash and cash equivalents, term deposits and certain other assets are classified as "loans and receivables".

Financial liabilities other than at fair value through income statement

Financial liabilities other than at fair value through income statement are measured at amortised cost using the effective interest rate method.

Fair value

The fair value of financial assets and liabilities traded in recognised financial markets is their quoted market price, based on the current quoted price. 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 bid price. For all other financial assets or liabilities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current fair value of another instrument that is substantially the same, recent arm's length market transactions, discounted cash flow analysis, other appropriate valuation models or brokers' quotes.

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

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 on the settlement date, i.e. the date that the group receives or delivers the asset. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of income or in equity 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 regulation or convention in the market place.

A financial asset (in whole or in part) is derecognised either when:

- The rights to receive the cash flows from the asset have expired;
- The group has retained its right to receive cash flows from the assets 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 right to receive cash flows from the assets and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its right to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, an asset is recognised to the extent of the group's continuing involvement in the asset.

A financial liability is derecognized when the obligation specified in the contract is discharged or cancelled or expires. 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of income.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, the group has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting

Effective 1 January 2009, the group has started using non derivative financial instruments (loans from banks and financial institutions) to manage exposures to foreign currency risks including exposures arising from forecast transactions. In order to manage particular risks, the group applies hedge accounting for transactions, which meet the specified criteria for fair value hedge and hedge of net investment in foreign operations.

For the purposes of hedge accounting, hedges applied by the group are classified into two categories:
a- Fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
b- Hedge of net investment in foreign operations

Fair value hedge

The change in fair value of a recognised asset or liability or firm commitment is recognised in the consolidated statement of income. The change in fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item. Gains or losses on re-measurement of both the hedging instrument and the hedged item are recognised in the consolidated statement of income.

Hedge of net investments in foreign operations

Hedges of net investment in foreign operations, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in consolidated statement of comprehensive income while any gains or losses relating to the ineffective portion are recognised in consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in consolidated statement of comprehensive income is transferred to consolidated statement of income.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting.

Investment in associates

The group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the company.

Investment properties

Land and buildings, held for long-term capital appreciation and rental yields, and not occupied by the group, is classified as investment property. Investment property is carried at cost which includes purchase price and transaction costs less accumulated depreciation and impairment losses. Freehold land is not depreciated. Depreciation is computed on a straight line basis over the estimated useful life of 25 years. The open market value is determined periodically by external valuers.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. The carrying amount of each item is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists the assets are written down to their recoverable amount and the impairment loss is recognised in the consolidated statement of income.

Investment property is derecognised when either it has been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the period of retirement or disposal.

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic lives i.e. 5 years, and assessed and adjusted for impairment whenever there is an indication that an intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but are tested annually for impairment and adjusted for the same, if any.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

Equipment is stated at cost, net of accumulated depreciation and impairment losses, if any.

Capital work in progress is not depreciated. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

• Furniture and equipment	4-5	years
• Computers	4	years
• Software	7	years

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised, if they are directly attributable to a project, as part of projects under construction, over the period of the construction until the project concerned is completed and becomes ready for its intended use, on the basis of actual borrowings and actual expenditure incurred on the project. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the project for its intended use are complete.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) arising from past event and the costs to settle the obligation are both probable and reliably measurable.

Employees' end of service indemnity

Provision is made for employees' end of service indemnity in accordance with the local laws based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the reporting date. Employees' end of service indemnity is included under 'Accounts payable and other liabilities'.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset, or a group of financial assets, may be impaired. In the case of financial asset classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, 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 removed from equity and recognised in the consolidated statement of income. Impairment losses on investment available for sale recognised in the consolidated statement of income are not reversed through the consolidated statement of income.

Loans and receivables are subject to credit risk provision for loan impairment if there is objective evidence that the group will not be able to collect all amounts due. The amount of the provision is difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the contractual interest rate. The amount of loss arising from impairment is taken to the consolidated statement of income.

In addition, in accordance with Central Bank of Kuwait (CBK) instructions, a minimum general provision of 1% for cash facilities and 0.5% for non cash facilities is made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

Provision for impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each reporting date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Kuwaiti Dinars at rates of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income are recognised in the consolidated statement of income.

Assets (both monetary and non-monetary) and liabilities, of foreign operations are translated at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in other comprehensive income(foreign currency translation reserve) until the disposal of the foreign operation.

Treasury shares

Treasury shares consist of the company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), 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 the general reserve and statutory reserve. 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.

Share based payment

The company operates an equity-settled, share-based Employee Stock Option Plan (ESOP). Under the terms of the plan, share options are granted to eligible employees. The options are exercisable in future period. The fair value of the options at the date on which they are granted is recognised as an expense over the vesting period with corresponding effect to equity. The fair value of the options is determined using Black-Scholes option pricing model.

Revenue recognition

- Management fees relating to portfolios and fund management, custody and on-going advisory services are recognised as earned.
- Commission income from brokerage business, performance fees, and placement fees are recognised when earned.
- Interest income and expenses are recognised using the effective interest method taking into account the principal outstanding and the rate applicable.
- Dividend income is recognised when the right to receive payment is established.

Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the group and accordingly are not included in these consolidated financial statements.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Segment information

A segment is a distinguishable component of the group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the group to allocate resources and assess performance and the reporting is consistent with the internal reports provided to the chief operation decision maker. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

Impairment losses on loans and receivables

The group reviews its problem loans and receivables on an annual basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of 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 judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of investments available for sale

The group treats investments available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement.

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 ; or
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;

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

3- CASH AND CASH EQUIVALENTS

	2009 KD	2008 KD
Cash and bank balances	**1,596,524**	2,202,234
Short term deposits	**1,847,478**	2,525,339
Cash and cash equivalents	**3,444,002**	4,727,573

Certain balances included in cash and cash equivalents are placed with related parties (Note 19).

Short term deposits bear interest rate at commercial rates, ranging from 1.125% to 5% (2008: 0.5% to 3.5%) per annum.

4- TERM DEPOSITS

Term deposits are held with commercial banks in the region, for a period of one year at interest rates ranging from 4% to 4.5% per annum (2008: 4.35%) payable quarterly.

5- INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT

	2009 KD	2008 KD
Financial assets held for trading:		
Quoted equity securities	**406**	21,297
Equity funds	**35,276**	5,220,546
	35,682	5,241,843

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

6- INVESTMENTS AVAILABLE FOR SALE

	2009 KD	2008 KD
Quoted equity securities	**221,217**	424,431
Unquoted equity securities	**6,093,229**	8,010,853
Managed funds	**17,162,843**	21,450,780
	23,477,289	29,886,064

Investments available for sale include unquoted equity investments carried at cost of KD 270,182 (2008: KD 3,040,477) as the fair value cannot be measured reliably.

During the year, the group has disposed of some investments available for sale for a total consideration of KD 5,759,756 (2008: 29,072,360), and realised a gain on disposal of KD 37,513 (2008: 6,086,962).

During the year ended 31 December 2008, the group adopted amendments to IAS 39: Financial instruments: recognition and measurement issued by the IASB on 13 October 2008 and reclassified certain investments in funds with a fair value of KD 24,003,053 from the investments at fair value through income statement to investments available for sale.

The group has recorded unrealised gains of KD 212,868 (2008: unrealised loss of KD 1,938,800) in respect of the reclassified investments in fair valuation reserve within equity. Had the group not implemented the amendments to IAS 39, these unrealised gains/ losses would have been recorded in the consolidated statement of income.

Certain investments available for sale amounting to KD 16.3 million (2008: KD 24.6 million) are pledged as security for a loan from Ahli United Bank B.S.C., Bahrain (Note 13).

7- LOANS AND ADVANCES

	2009 KD	2008 KD
Loans to customers	**14,210,692**	15,569,793
Loans to staff	**425,897**	72,469
	14,636,589	15,642,262
Less: General provision	**(148,810)**	(156,423)
Less: Provision for impairment	**(70,100)**	-
	14,417,679	15,485,839

Movement in the general provision relating to loans and advances is as follows:

	2009 KD	2008 KD
At 1 January	**156,423**	242,969
Charge for the year	**-**	16,807
Release of excess general provision	**(7,613)**	(103,353)
At 31 December	**148,810**	156,423

The policy of the group for calculation of the impairment provision for loans and advances complies in all material respects with the specific provision requirements of Central Bank of Kuwait.

The analysis of general provisions set out above is based on the requirements of the Central Bank of Kuwait (CBK). According to the CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non cash facilities has been made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

All loans and advances and related collateral are pledged as security for the loan from Ahli United Bank B.S.C., Bahrain (Note 13).

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

8- INVESTMENT IN AN ASSOCIATE

The company has 30% (2008: 30%) interest in Middle East Financial Investment Company, an unquoted company incorporated in Kingdom of Saudi Arabia engaged in investment activities.

The share in assets, liabilities, revenues and result of the associate for the period ended 31 December 2009 is as follows:

	2009 KD	2008 KD
Share of associate's balance sheet:		
Current assets	239,764	7,998,400
Non-current assets	8,077,465	293,194
Current liabilities	(35,982)	(229,646)
Non-current liabilities	(50,413)	(13,599)
Net assets	8,230,834	8,048,349
Share of associate's revenues and losses		
Operating income/(loss)	386,721	(212,602)
Loss for the period	(244,184)	(774,783)

Investment in an associate is pledged as security for loan from Ahli United Bank B.S.C., Bahrain (Note 13).

9- INVESTMENT PROPERTIES

These represent real estate properties under development, in the region acquired by the group during the year. The fair value of investment properties as of 31 December 2009 approximates their carrying value based on a market valuation by an independent valuer.

Investment properties are pledged as security for loan from The Bank of Kuwait and The Middle East K.S.C., Kuwait (Note 13).

10- OTHER ASSETS

	2009 KD	2008 KD
Application money for investments	-	503,851
Dues from unsettled trades	345,365	180,303
Accrued management fee	641,976	698,170
Receivable from disposal of investment	3,977,707	3,977,707
Advance paid for acquisition of a property	2,307,405	1,903,795
Prepaid expenses	240,466	420,040
Others	1,481,604	1,461,504
	8,994,523	9,145,370
Less: Provision for doubtful receivable from disposal of investment	(2,761,363)	-
	6,233,160	9,145,370

11- INTANGIBLE ASSETS

	Key money KD	Brokerage License KD	Total KD
Cost			
At 1 January 2009	-	12,691,532	12,691,532
Acquisition during the year	110,000	-	110,000
At 31 December 2009	**110,000**	**12,691,532**	**12,801,532**
Amortisation			
At 1 January 2009	-	-	-
Amortisation charge for the year	44,000	-	44,000
At 31 December 2009	**44,000**	**-**	**44,000**
Net carrying amount			
At 31 December 2009	**66,000**	**12,691,532**	**12,757,532**
At 31 December 2008	-	12,691,532	12,691,532

Brokerage licences represents licences acquired from Kuwait Stock Exchange for KD 12,500,000; Jordan Stock Exchange for KD 77,766 (Jordanian Dinar 200,000) and Muscat Securities Market for KD 113,766 (Omani Riyals 150,000). These licences have indefinite useful lives.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

12- EQUIPMENT

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2009	2,541,823	1,107,593	715,621	4,969,344	9,334,381
Additions	97,885	24,964	5,825	2,026,389	2,155,063
Disposals	(264,141)	(309)	-	-	(264,450)
Foreign currency adjustment	14,063	6,297	3,025	-	23,385
At 31 December 2009	**2,389,630**	**1,138,545**	**724,471**	**6,995,733**	**11,248,379**
Accumulated depreciation					
At 1 January 2009	704,675	629,259	464,096	-	1,798,030
Depreciation	506,643	198,868	100,125	-	805,636
Disposals	(34,247)	(12)	-	-	(34,259)
Foreign currency adjustment	2,063	2,830	2,319	-	7,212
At 31 December 2009	**1,179,134**	**830,945**	**566,540**	**-**	**2,576,619**
Net book value at 31 December 2009	**1,210,496**	**307,600**	**157,931**	**6,995,733**	**8,671,760**

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2008	2,111,255	1,137,288	697,672	1,598,111	5,544,326
Additions	860,556	90,371	17,932	3,371,233	4,340,092
Disposals	(430,313)	(120,268)	-	-	(550,581)
Foreign currency adjustment	325	202	17	-	544
At 31 December 2008	2,541,823	1,107,593	715,621	4,969,344	9,334,381
Accumulated depreciation					
At 1 January 2008	682,730	549,077	355,243	-	1,587,050
Depreciation	451,088	199,465	108,840	-	759,393
Disposals	(429,240)	(119,356)	-	-	(548,596)
Foreign currency adjustment	97	73	13	-	183
At 31 December 2008	704,675	629,259	464,096	-	1,798,030
Net book value at 31 December 2008	1,837,148	478,334	251,525	4,969,344	7,536,351

Capital work in progress represents IT project under development. Interest on term loan of KD 159,085 (2008: KD Nil) has been capitalised as part of capital work in progress.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

13- LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

	2009 KD	2008 KD
Unsecured bank loans	-	10,000,000
Secured bank loans	36,612,364	26,196,800
	36,612,364	36,196,800

Secured bank loans represent loans from the ultimate parent company and the parent company secured by mortgaging assets of the company comprising investment in subsidiaries (Note 2), certain investments available for sale (Note 6), loans and advances (Note 7), investment in an associate (Note 8) and investment properties (Note 9). Also unsecured bank loans as of 31 December 2008 represent loans from a local bank, which were repaid during 2009.

Hedge of net investments in foreign operations
Included in loans from banks and financial institutions are loans of KD 2,459,952 denominated in foreign currencies (OMR 2,032,196 and AED 12,104,511), which have been designated as a hedge of the net investments in the overseas subsidiaries (Middle East Brokerage Company L.L.C. – Oman; and Middle East Financial Brokerage Company L.L.C. – UAE).

The loans are being used to hedge the group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of loans from banks and financial institutions are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries. Foreign exchange loss arising on translation of the hedging instruments (loans) amounting KD 323,405 were taken directly to other comprehensive income. There is no ineffectiveness at 31 December 2009.

Fair value hedge
As of 31 March 2009, the loans from banks and financial institutions included loans of KD 390,683 denominated in foreign currency (AED 4,954,511). Gains or losses on retranslation of these loans were used by the company to hedge the foreign exchange movements of an investment available for sale (denominated in AED). The hedge was designated as a fair value hedge. As at 31 December 2009, the fair value hedge does not exist since the loan was settled during the three month period ended 30 June 2009.

During the year, the group recognised a net loss of KD 81,979 in the consolidated statement of income representing the foreign exchange loss on the revaluation of the loan, which had been offset with a similar gain on the investments available for sale.

14- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2009 KD	2008 KD
Staff payables	1,422,184	2,105,500
Provision for contribution to KFAS, NLST and Zakat	-	171,461
Loan interest payable	364,448	286,426
Brokerage payables	511,846	99,106
Others	695,999	1,040,746
	2,994,477	3,703,239

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

15- EQUITY

Share capital

The authorised, issued and paid capital of the company is as follows:

	2009 KD	2008 KD
Authorised: 263,814,991 shares of 100 fils each (31 December 2008: 239,831,810 shares of 100 fils each)	**26,381,499**	23,983,181
Issued and fully paid up: 263,814,991 shares of 100 fils each (31 December 2008: 239,367,546 shares of 100 fils each)	**26,381,499**	23,936,755

In the annual general meeting held on 21 May 2009, the shareholders approved the increase of authorised share capital from 239,831,810 shares of 100 fils each to 263,814,991 shares of 100 fils each through bonus issue.

Issue of employee stock option shares

The issued and fully paid up capital includes shares 15,837,638 (2008: 15,373,376 shares) on account of share option plan for employees.

Issue of bonus shares

In the annual general meeting held on 21 May 2009, the shareholders approved the Board of Directors' recommendation to issue 23,983,181 bonus shares of 100 fils each in the ratio of 10 shares for every 100 shares to shareholders as of the date of the annual general meeting.

Treasury shares

	2009 KD	2008 KD
Number of own shares	**2,623,500**	2,235,000
Percentage of issued shares	**0.99%**	0.93%
Book Value (KD)	**1,174,880**	1,139,220
Market value (KD)	**228,245**	614,625

Treasury shares reserve is not available for distribution.

Share premium

The share premium represents premiums collected upon issuing new shares to employees under Employee Stock Option Plan. This amount is not available for distribution.

Statutory reserve

As required by the Commercial Companies Law and the company's Articles of Association, 10% of the profit for the year attributable to shareholders of the company before directors' fees and contribution to Zakat, KFAS and NLST is transferred to statutory reserve. The company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. There were no appropriations to the statutory reserve during the year due to losses incurred.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

General reserve

In accordance with the company's Articles of Association, 10% of the profit for the year attributable to shareholders of the company before directors' fees and contribution to Zakat, KFAS and NLST is transferred to general reserve. Such annual transfers may be discontinued by a resolution of the company's shareholders general assembly upon a recommendation by the Board of Directors. General reserve is available for distribution. There were no appropriations to the general reserve during the year due to losses incurred.

As per the instruction of Central Bank of Kuwait dated 20 November 2008 the minimum general provision in excess of 1% on cash facilities and 0.5% on non cash facilities amounting to KD 103,353 was recognised in the consolidated statement of income and transferred to general reserve as on 31 December 2008, which is not available for distribution.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

16- INTEREST INCOME AND INTEREST EXPENSE

	2009 KD	2008 KD
Interest income:		
Term deposits and bank balances	**166,861**	310,312
Loans and advances	**941,899**	1,466,010
Total interest income	**1,108,760**	1,776,322
Interest expense:		
Bank borrowings	**1,278,634**	2,119,794

17- BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings per share for the year presented in the consolidated statement of income are calculated as follows:

	2009 KD	2008 KD
(Loss) profit for the year attributable to the shareholders of the company (KD)	**(9,442,597)**	3,933,942
Weighted average number of shares outstanding during the year – Basic EPS	**261,110,910**	261,207,010
Weighted average number of shares outstanding during the year - Diluted EPS	**261,110,910**	261,207,010
Basic and diluted (loss) earnings per share (fils)	**(36.2)**	15.1

Basic and diluted earnings per share reported was 16.58 fils for the year ended 31 December 2008, before retroactive adjustments to the number of shares following the bonus issue (Note 15). The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares.

	2009	2008
Weighted average number of issued and paid up shares	**263,697,972**	262,816,259
Less: Weighted average number of treasury shares	**(2,587,062)**	(1,609,249)
Weighted average number of shares for basic and diluted earnings per share purposes	**261,110,910**	261,207,010

18- EMPLOYEE SHARE OPTION PLAN

2006 Plan:

a- The annual general assembly meeting of the shareholders held on 20 March 2006 approved a second share option plan for employees (2006 Plan). In accordance with the plan, the Board of Directors of the Company were authorised to grant up to 3,773,880 shares as first tranche of stock options to the employees.

The options vest as follows:
First tranche - 100% of the grant vest immediately after the grant date;
Second tranche - 100% of the grant vest immediately after the grant date;
Third tranche - 100% of the grant vest immediately after the grant date.

The first tranche option price was fixed at 287 fils per share and was determined based on the average market price for the three months from 1 March 2005 till 31 May 2005, less a discount of 30%.

b- The annual general assembly meeting of the shareholders held on 20 March 2007, approved the second tranche of the employee share option plan (2006 plan) to issue 2,205,235 shares as stock options to the employees.

The second tranche was fixed at 380 fils per share and was determined based on the average market price for the three months from 1 March 2005 till 31 May 2005, less a discount of 7.32%. The option holders are eligible for any bonus shares issued by the company after 31 May 2005.

c- The annual general meeting of the shareholders held on 18 March 2008, approved the third tranche of the employee share option plan (2006 plan) to issue 464,462 shares as stock option to employees.

As of 31 December 2009 2,061,986 stock options were not exercised (31 December 2008: 1,410,725).

Employees can exercise the options till June 2011.

The fair value of options granted to employees has been determined on the date of the respective grant using the Chicago Board of Exchange option-pricing model by applying European Option Style.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

18- EMPLOYEE SHARE OPTION PLAN (continued)

2006 Plan: (continued)

The Board of Directors are authorised to allocate unvested share options relating to employees who resign or are terminated from services, to new employees of the company, based on the same terms.

	Options Outstanding (Number)	Weighted exercise price (KD)	Weighted average share price (KD)
Issued options for the 2006 Plan	6,443,377		
Options exercised for the 2006 plan	(5,564,471)	0.217	0.510
Bonus shares on 2006 plan	1,183,080		
Outstanding options as at 31 December 2009	**2,061,986**		

19- RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by the group's management.

The related party transactions included in the consolidated financial statements are as follows:

	Number of directors and executive officers		Amount (KD)	
	2009	2008	**2009**	2008
Directors				
Loans and advances	**1**	1	**295,000**	295,012
Key Management Personnel				
Loans and advances	**1**	-	**62,000**	-

Related party balances

	2009 KD	2008 KD
Receivable from parent company	**52,980**	56,649
Receivable from other related parties	**93,305**	58,449
Deposits placed with parent company (Note 3)	**1,107,189**	1,654,414
Loans taken from parent company and ultimate parent company (Note 13)	**36,612,364**	26,196,800
Guarantees	**2,991,921**	7,795,325
Investments and funds managed in a fiduciary capacity	**37,508,822**	147,969,021

Related party transactions

	2009 KD	2008 KD
Management fees earned	**88,321**	751,342
Interest income	**32,614**	90,871
Interest expense	**1,397,706**	1,805,941

Interest on term loan of KD 159,085 (2008: Nil) has been capitalised as part of capital work in progress

Key management compensation:	**2009** KD	2008 KD
Salaries and other short term benefits	**671,008**	726,347

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

20-COMMITMENTS AND CONTINGENT LIABILITIES

	2009 KD	2008 KD
Capital commitments for purchase of equipment	**671,227**	2,630,841
Guarantees	**2,991,921**	7,795,325
Uncalled capital contributions relating to investments	**940,395**	1,073,341

Guarantees issued by the group noted above exclude a guarantee of KD 43.75 million (2008: KD 42.08 million) because this guarantee is backed by an irrevocable counter guarantee of an equal amount issued in favour of the group by a sovereign authority of Kuwait.

21- FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the company on behalf of clients. These are not assets of the company and accordingly are not included in the consolidated financial statements. As at the reporting date, total fiduciary assets managed by the company amounted to KD 690 million equivalent to US$ 2,406 million (2008: KD 973 million equivalent to US$ 3,526 million). Management fee of KD 3,026,638 (2008: KD 6,506,408) and performance fee of KD 26,867(2008: KD 212,671), have been recognised by the company for management of fiduciary assets.

22- MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for investments at fair value through income statement, investments available for sale, investment in associates and investment properties is based on management's estimate of liquidation of these financial assets.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

22- MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The maturity profile of the assets and liabilities at 31 December 2009 and 31 December 2008 are as follows:

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Assets										
Cash and cash equivalents	**2,928,002**	4,727,573	**516,000**	-	**-**	-	**-**	-	**3,444,002**	4,727,573
Term deposits	**-**	-	**-**	-	**427,019**	-	**-**	2,343,615	**427,019**	2,343,615
Investments at fair value through income statement	**-**	-	**35,682**	5,241,843	**-**	-		-	**35,682**	5,241,843
Investments available for sale	**221,217**	424,431	**-**	-		-	**23,256,072**	29,461,633	**23,477,289**	29,886,064
Loans and advances	**2,685,497**	4,571,171	**7,981,004**	3,860,358	**3,701,178**	6,927,065	**50,000**	127,245	**14,417,679**	15,485,839
Investment in an associate	**-**	-	**-**	-	**-**	-	**8,230,834**	8,048,349	**8,230,834**	8,048,349
Investment properties	**-**	-	**-**	-	**-**	-	**8,540,664**	-	**8,540,664**	-
Other assets	**2,468,945**	4,663,812	**240,466**	-	**3,523,749**	4,481,558	**-**	-	**6,233,160**	9,145,370
Intangible assets	**-**	-	**-**	-	**-**	-	**12,757,532**	12,691,532	**12,757,532**	12,691,532
Equipment	**-**	-	**-**	-	**-**	-	**8,671,760**	7,536,351	**8,671,760**	7,536,351
	8,303,661	14,386,987	**8,773,152**	9,102,201	**7,651,946**	11,408,623	**61,506,862**	60,208,725	**86,235,621**	95,106,536
Liabilities										
Loans from banks and financial institutions	**-**	10,000,000	**12,326,364**	-	**24,286,000**	19,647,600	**-**	6,549,200	**36,612,364**	36,196,800
Accounts payable and other liabilities	**511,846**	473,928	**1,060,447**	-	**288,200**	2,220,231	**1,133,984**	1,009,080	**2,994,477**	3,703,239
	511,846	10,473,928	**13,386,811**	-	**24,574,200**	21,867,831	**1,133,984**	7,558,280	**39,606,841**	39,900,039
Net liquidity gap	**7,791,815**	3,913,059	**(4,613,659)**	9,102,201	**(16,922,254)**	(10,459,208)	**60,372,878**	52,650,445	**46,628,780**	55,206,497

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

23-SEGMENT INFORMATION

The group is organised into segments that engage in business activities which earns revenue and incurs expenses. These segments are regularly reviewed by the chief operating decision maker for resource allocation and performance assessment. For the purposes of segment reporting the management has grouped the business units into the following operating segments:

- Asset management: engaged in providing third party fund and portfolio management services on a fiduciary basis.
- Brokerage and online trading: engaged in on-line and broking services across MENA and US based stock exchanges.
- Credit operations: engaged in providing margin loans to the clients trading in KSE and commercial loans to the clients
- Principal investment & treasury: engaged in money market placements and proprietary trading in equity stocks and funds across GCC and International markets.

Segment revenue and expenses includes operating revenue and expenses directly attributable to a segment. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment.

Capital expenditure consists of additions to equipment.

Segment information for the year ended 31 December 2009 and 31 December 2008 are as follows:

	Asset management KD	**Brokerage & online trading KD**	**Credit operations KD**	**Principal investment & treasury KD**	**Unallocated**	**Total KD**
As at 31 December 2009						
Segment revenue	**3,015,184**	**3,045,283**	**1,108,760**	**(331,388)**	**-**	**6,837,839**
Segment expenses	**(1,630,250)**	**(2,912,131)**	**(62,487)**	**(11,687,395)**	**-**	**(16,292,263)**
Segment results	**1,384,934**	**133,152**	**1,046,273**	**(12,018,783)**	**-**	**(9,454,424)**
Segment assets	**-**	**12,757,531**	**14,417,679**	**52,064,678**	**6,995,733**	**86,235,621**
Segment liabilities	**-**	**-**	**-**	**(2,994,477)**	**(36,612,364)**	**(39,606,841)**
	-	**12,757,531**	**14,417,679**	**49,070,201**	**(29,616,631)**	**46,628,780**
Other segmental information:						
Depreciation and amortisation	**-**	**204,010**	**471,839**	**173,787**	**-**	**849,636**
Capital expenditure	**-**	**-**	**-**	**238,674**	**2,026,389**	**2,265,063**
Impairment losses on investments available for sale	**-**	**-**	**-**	**5,759,387**	**-**	**5,759,387**

	Asset management KD	Brokerage & online trading KD	Credit operations KD	Principal investment & treasury KD	Unallocated	Total KD
As at 31 December 2008						
Segment revenue	7,610,717	6,369,822	1,776,322	2,061,756	-	17,818,617
Segment expenses	(1,512,946)	(3,894,499)	(26,525)	(7,961,593)	-	(13,395,563)
Segment results	6,097,771	2,475,323	1,749,797	(5,899,837)	-	4,423,054
Segment assets	-	12,691,532	15,485,839	61,959,821	4,969,344	95,106,536
Segment liabilities	-	-	-	(703,239)	(39,196,800)	(39,900,039)
	-	12,691,532	15,485,839	61,256,582	(34,227,456)	55,206,497
Other segmental information:						
Depreciation	-	149,598	450,342	159,453	-	759,393
Capital expenditure	-	-	-	968,859	3,371,233	4,340,092
Impairment losses on investments available for sale	-	-	-	1,465,131	-	1,465,131

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

23- SEGMENT INFORMATION (continued)

Geographical information

As at 31 December 2009	Total income KD	Non-current assets KD
Kuwait	6,432,279	21,099,153
International	405,560	17,101,637
	6,837,839	**38,200,790**

As at 31 December 2008	Total income KD	Non- current assets KD
Kuwait	19,315,442	19,687,673
International	(1,496,825)	8,588,559
	17,818,617	28,276,232

Non-current assets for this purpose consist of investment in an associate, investment properties, equipment and intangible assets.

The group's income from transactions with a single external customer does not exceed 10% of the total income of the group.

24- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The estimated fair values of financial assets and liabilities and off balance sheet financial instruments, except for certain unquoted equity instruments classified as investments available for sale (Note 6), approximated their respective net book values at the reporting date.

Financial instruments measured at amortized cost

For financial assets and financial liabilities that are liquid or having a short term contractual maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fair value hierarchy

As at 31 December 2009, the group held the following financial instruments measured at fair value.

The group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs that have a significant effect on the recorded fair value are not based on observable market data.

31 December 2009	Level: 1 KD	Level: 2 KD	Level: 3 KD	Total KD
Investments at fair value through income statement				
Equity securities	406	-	-	406
Equity funds	35,276	-	-	35,276
	35,682	-	-	35,682
Investments available for sale				
Equity securities	221,217	5,823,046	-	6,044,263
Managed funds	7,515,935	9,646,909	-	17,162,844
	7,737,152	15,469,955	-	23,207,107

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

25- RISK MANAGEMENT

The group in the normal course of business uses various types of financial instruments. Due to this the group is exposed to variety of financial risks which are: credit risk, liquidity risk and market risk. Market risk is being subdivided into interest rate risk, equity price risk, currency risk and prepayment risk. The group's risk management team focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by senior management under the policies that are approved by the Board of Directors. The senior management is responsible for the independent review of risk management and the control environment.

The use of financial instruments also brings with it associated inherent risks. The group recognises the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the group's strategic objectives.

The strategy of the group is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the group's major risk-based lines of business. The group's risk management policies are designed to identify and analyse these risks, to set appropriate controls and to monitor risks by means of reliable and up to date information system. The group continuously reviews its risk management policies and practices to ensure that it is not subject to large asset valuation or earnings volatility.

25.1- CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group is exposed to credit risk on bank balances, term deposits, loans and advances and other outstanding receivables. The maximum exposure to credit risk is the carrying amount as at the reporting date.

The group has policies and procedures in place to limit the amount of credit exposure to any counter party. The group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Gross maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk across financial assets before taking into consideration the effect of credit risk mitigation.

	2009 KD	2008 KD
Bank balances	3,435,096	4,714,979
Term deposits	427,019	2,343,615
Loans and advances	14,636,589	15,485,839
Other assets	6,369,544	6,297,300
Gross maximum credit risk exposure	24,868,248	28,841,733

The maximum credit exposure to any single client or counterparty as of 31 December 2009 was KD 7,500,000 (2008: KD 4,476,541) before taking account of collateral or other credit enhancements and KD Nil (2008: KD Nil) net of such protection.

Collateral and other credit enhancements

Loans and advances are secured against investments in quoted and unquoted securities and balances held as fiduciary portfolios, on behalf of the borrowers, managed by the group. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The group can sell the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The group has an obligation to return the collateral on the settlement of the loan or at the closure of the borrowers' portfolio with the group.

The fair value of collateral that the group holds relating to loans and advances and other assets at 31 December 2009 amounts to KD 38,324,424 (2008: KD 30,692,295).

Risk concentration of maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

25- RISK MANAGEMENT (continued)

25.1- CREDIT RISK (continued)

Risk concentration of maximum exposure to credit risk (continued)

The group seeks to manage its credit risk exposure through diversification of lending activities, to avoid undue concentrations of risks with individuals or groups of customers in specific industries or business. It also obtains security when appropriate. All the loans are granted after assessing the credit quality of customers and taking into account their portfolio position, in case of margin loans, and in case of commercial loans the collateral which will be the shares traded on Stock Exchanges. All these collaterals are constantly monitored by the respective departments.

The group's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the geographical regions and industry sectors as follows:

	Assets		Contingent liabilities and commitments	
	2009	2008	**2009**	2008
	KD	KD	**KD**	KD
Geographic region:				
Kuwait	**21,439,998**	21,660,305	**2,991,921**	2,668,683
Other Middle East	**3,275,070**	7,150,950	**-**	7,757,483
Rest of the World	**153,180**	30,478	**1,611,622**	1,073,341
	24,868,248	28,841,733	**4,603,543**	11,499,507

	Assets		Contingent liabilities and commitments	
	2009	2008	**2009**	2008
	KD	KD	**KD**	KD
Industry sector:				
Banks and financial institutions	**15,339,822**	11,385,615	**3,932,316**	7,795,325
Other	**9,528,426**	17,456,118	**671,227**	3,704,182
	24,868,248	28,841,733	**4,603,543**	11,499,507

Credit quality of financial assets that are neither past due nor impaired

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the group has internal credit committees which are composed of competent professional staff and which have as their purpose the study and evaluation of the existing credit facilities of each customer of the group. These committees are required to identify any abnormal situations and difficulties associated with a customer's position, which might cause the loan to be classified as irregular and to determine an appropriate provisioning level.

The credit quality of all financial assets exposed to credit risk that were neither past due nor impaired is classified as high grade.

Analysis of past due but not impaired financial assets

As at 31 December 2009, other assets exposed to credit risk of KD 351,782 (2008: KD Nil) were past due but not impaired.

Impaired and renegotiated financial assets

As at 31 December 2009, other assets, and loans and advances exposed to credit risk of KD 4,047,807 (2008: KD 199,576) were impaired against which the group carries a provision of KD 2,831,463 (2008: Nil). The group has not renegotiated any asset that would otherwise be past due or impaired.

25.2- LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash and cash equivalents, and readily marketable securities. Due to the dynamic nature of business, the group's treasury department maintains flexibility in funding by maintaining available funds under various credit lines. Management monitors rolling forecasts of the group's liquidity reserves on the basis of expected cash flows. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the group's liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

25-RISK MANAGEMENT (continued)

25.2- LIQUIDITY RISK (continued)

Financial liabilities	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Loans from banks and financial institutions	**-**	10,024,723	**12,454,888**	-	**24,728,605**	20,237,028	**-**	6,942,152	**37,183,493**	37,203,903
Accounts payable and other liabilities	**511,846**	473,928	**1,060,447**	-	**288,200**	2,220,231	**1,133,984**	1,009,080	**2,994,477**	3,703,239
Total undiscounted financial liabilities	**511,846**	10,498,651	**13,515,335**	-	**25,016,805**	22,457,259	**1,133,984**	7,951,232	**40,177,970**	40,907,142
Contingent liabilities and commitments	**-**	-	**-**	-	**3,663,148**	10,426,166	**940,395**	1,073,341	**4,603,543**	11,499,507

Refer to Note 22 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above; which exclude future interest payments.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

25- RISK MANAGEMENT (continued)

25.3- MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

25.3.1- Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect the value of the underlying financial instruments. The group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The group is exposed to interest rate risk on its interest bearing assets and liabilities which include cash and cash equivalents, term deposits, loans and advances, and loans from banks and financial institutions.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

Currency	Increase of 25 basis points Effect on profit before directors' fees and contribution to Zakat, KFAS and NLST	
	2009	2008
	KD	KD
Kuwaiti Dinar	**(33,331)**	4,784
US Dollar	**(14,383)**	(20,366)
GCC currencies	**(6,150)**	(33,820)
Other currencies	**(1,251)**	(1,985)

Sensitivity to currency rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

25.3.2- Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the company. The unquoted equity price risk exposure arises from the group's investment portfolio. The group manages this through diversification of investments in terms of geographical distribution and industry concentration. Diversification of the portfolio is done, keeping in mind the company's policies and the legal requirements of State of Kuwait.

The effect on equity as a result of a change in the fair value of the equity instruments held as investments available for sale at 31 December 2009 due to a reasonable possible change in the equity indices, with all other variables held as constant is as follows:

		2009		2008	
Market indices	**Changes in equity price %**	**Effect on profit KD**	**Effect on equity KD**	Effect on profit KD	Effect on equity KD
Kuwait Index	-10%	**-**	**(462,739)**	-	(527,447)
Other GCC Indices	-10%	**(41)**	**(133,996)**	-	-

Sensitivity to equity price movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

25.3.3- Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The group operates regionally and internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and GCC currencies.

Currency risk is managed primarily through borrowings in the relevant foreign currencies. The group's exposure to currency risk is equal to the carrying amount of net assets denominated in foreign currencies.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2009

25- RISK MANAGEMENT (continued)

25.3- MARKET RISK (continued)

25.3.3- Currency risk (continued)

Assets denominated in foreign currencies

As at the reporting date the group had the following significant net asset exposures denominated in foreign currencies:

	2009 KD	2008 KD
US Dollar	(5,544,776)	320,782
GCC currencies	(2,410,016)	2,368,931
Other currencies	(474,565)	3,836,128
	(8,429,357)	6,525,841

The effect on profit before KFAS, directors' remuneration, NLST and Zakat (due to change in the fair value of monetary assets and liabilities), as a result of change in currency rate, with all other variables held constant is shown below:

	Decline in currency rate by 5%	
	Effect on profit before KFAS, Directors' remuneration, NLST and Zakat	
	2009 KD	2008 KD
US Dollar	277,239	134,048
GCC currencies	120,501	411,897
Other currencies	23,728	(144,850)

25.3.4- Prepayment risk

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

26- CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

The group monitors capital using a gearing ratio, which is net debt divided by total capital. The group includes within net debt, interest bearing loans from bank and other financial institutions, other liabilities, less cash and cash equivalent and term deposits. Total capital represents equity attributable to the shareholders of the company.

The Central Bank of Kuwait and the Kuwait Stock Exchange specifies the minimum amount of capital that must be held by the company. The required minimum capital must be maintained at all times throughout the year. The company has embedded in its regulatory compliance of framework the necessary test to ensure the continuous and full compliance with such regulations.