KMEFIC

Annual Report
2010

Contents

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

H.H. Sheikh Nawaf Al-Ahmad
Al-Jaber Al-Sabah
Crown Prince 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

Hamed Hamad Al Sanee
Chairman & Managing Director

Hamad A. Al-Marzouk
Vice Chairman

Ahmed Zulficar
Director

Prakash Mohan
Director

Jihad Al Humaidhi
Director

Herschel Post
Director

Sanjeev Baijal
Director

Chairman's Message

Dear Shareholders,

GCC countries showed signs of continued recovery during the year 2010 and the International Monetary Fund (IMF) expects the region's economies to register a 5.5% growth for the year compared to 1.4% average increase in real GDP for 2009. Kuwait, however, tailed the list in 2009 as its real GDP retreated by 4.8%, followed by UAE with a decline of 2.5% from 2008's numbers. Growth rates for the remaining GCC economies during 2009 ranged between a low of 0.6% (Saudi Arabia) and a high of 8.6% (Qatar).

The IMF expects all GCC economies to witness positive change in real GDP for the year 2010, backed by improved oil prices and hikes in government spending. Topping the list is definitely Qatar, with the highest economic growth in 2010 among neighboring countries, at an estimated 16% increase in real GDP. On the other hand, Kuwait is still expected to be the least growing GCC economy in 2010, with 2.3% expansion.

Oil prices recovery was the major driver for positive economic performance in the region; after hitting bottom during the first quarter of 2009, following the global financial turmoil, oil prices started growing gradually afterwards, facing a minor setback in the third quarter of 2010.

Along with the improvement in GDP figures, the region's average inflation rate is estimated to have grown to 3.3% in 2010 from 2.0% of average inflation in the previous year.

Furthermore, the Middle East region as a whole which showed signs of recovery and stability in 2010 where sovereign Credit Default Swaps' (CDS) rates retreated on average by 15.34% in 2010 (47.64% decline in 2009), faced shakiness due to political unrest.

During 2010, stock markets of the GCC countries saw mixed performance as some markets exhibited relative improvement, while others retracted. Qatar Exchange was 2010's top winner, with its main index achieving an annual growth of around 25%. Saudi Stock Exchange ranked second, growing by 8.15% (2009: 27.46%), followed by Muscat Securities Market with 6.06% annual increase. Remaining markets lingered in the red zone by the end of last year, headed by Dubai Financial Market that lost 9.60%, whereas Kuwait and Abu-Dhabi markets registered less than 1% annual loss.

In general, most GCC countries were expected to expand their spending in 2010 in line with an anticipated hike in revenues and stimulus plans that were planned by their respective governments. For example, it is projected that Saudi Arabia will register a total of SAR 626.5 billion in expenditure for 2010, while earning a revenue of SAR 737 billion. Furthermore, Kuwait has projected its revenue for the fiscal year 2010/2011 to reach KWD 9.72 billion, compared to a budgeted KWD 8.07 billion for previous year, and has anticipated spending and commitments of KWD 17.3 billion, planning for a deficit reaching some KWD 7.6 billion; However, Kuwait's actual total revenue for the nine-month period of its 2010/2011 budget reached KWD 15.1 billion, exceeding the total estimated revenue for the period by 107.5% while hiking 55.7% above the total year's planned revenue. Oil revenue for the period amounted to KWD 14.1 billion, some 93.3% of total revenue. On the other hand, during the same period Kuwait's actual expenses and commitments totaled KWD 9.6 billion, 26% lower than the budgeted 12.96 billion for the first nine months of 2010/2011 fiscal year.

Company's Performance

2010 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 4.59 million which is lower by 36% compared to KD 7.19 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 1.88 million (lower by 39% compared to KD 3.07 million in the previous year) representing approximately 41% of total revenue. This is followed by management fees at KD 2.27 million (lower by 26% compared to KD 3.06 million in the previous year) which represented approximately 49.4% of the total revenue. Interest income stood at KD 0.278 million (lower by 75% compared to KD 1.11 million in the previous year) constituting 6% of total revenue.

On the other hand, KMEFIC's investment activities produced a net income of KD 53 thousand (compared to a net loss of KD 169 thousand in the previous year).

While total income dropped by 36%, total operating expenses also dropped by 3% during the year to KD 7.8 million primarily on account of lower interest and staff expenses. The provision on Receivables and Available for Sale Investments decreased to KD 5.7 million as compared to KD 8.6 million in the previous year. In

" KMEFIC's Equity Funds and Composite Portfolio of our Kuwait Separately Managed Accounts outperformed their respective benchmarks "

Chairman's Message Continued

order to deal with the current financial crisis, we have taken several cost cutting measures, the effects of which have been reflected in the cost of operations, partially offset by the increased new IT platform maintenance costs, resulting in an overall decrease of KD 253 thousand during the year. A combination of the above factors led the company to achieve a net loss attributable to the shareholders of the company of KD 8.91 million as compared to net loss of KD 9.44 million in 2009. This translated into basic and diluted loss per share of (34.1) fils in 2010 compared to basic and diluted loss per share of (36.2) fils in 2009.

Asset Management

Showing cautious optimism in 2010, investors returned to the market slowly however with limited appetite for risk, resulting in minor rally of blue chip and investment grade assets. With the reduction in volatility, KMEFIC also redeployed capital into quality and high conviction themes between the GCC and emerging markets to enhance investor returns effectively. Furthermore, in the second half of the year KMEFIC harvested new research from an expanded buy-side research team, resulting in dynamic and quantitative approaches to managing wealth portfolios, which were in turn implemented through the power of our new portfolio management system.

The end of year results for KMEFIC equity strategies continued to build upon the strong long-term performance of both Equity Funds and the Composite Portfolio of our Kuwait Separately Managed Accounts which outperformed their respective benchmarks. In the Financial Derivatives product line, the futures and forwards portfolios showed strong absolute and relative outperformance against the KSE continuing their previous two year's winning streak of solid relative performance.

While KMEFIC's asset management business ended the year with an operating profit, it was offset by residual write-downs associated with specific non-performing assets. Asset management generated a positive run rate in net operating profit with these items removed. With these solid business fundamentals and our favorable view of GCC markets, we view the year ahead as the opportunity for renewed growth in our asset management line of business.

2011 Launch of GCC Asset Management Program

Our strong conviction regarding the direction of GCC markets and investor needs, as well as the future opportunity in wealth management has driven our efforts over the last two years to develop and implement leading portfolio management and brokerage technology in order to transform the company and establish leadership in new market segments. In 2011, with technology enabled execution, KMEFIC will launch new diversified funds and both Wealth Preservation and Wealth Enhancement Portfolio Series as components of a comprehensive GCC Asset Management Program for both Conventional and Shari'a compliant investors.

The KMEFIC Asset Management Program will integrate our products, strategies and services to deliver a more balanced approach for wealth management based on the unique needs of GCC High Net Worth and Institutional clients. Lastly, we will introduce KMEFIC Advisory Services to provide select clients with the flexibility to customize Shari'a and conventional strategies through access to an expanded range of public and private investment opportunities across several asset classes. KMEFIC Advisory will draw on our informed market intelligence, leading market execution and sophisticated portfolio management technology.

We are excited about the 2011 launch of KMEFIC's Asset Management Program and look forward to communicating developments, which will generate new investments opportunities for clients in both Kuwait and the GCC.

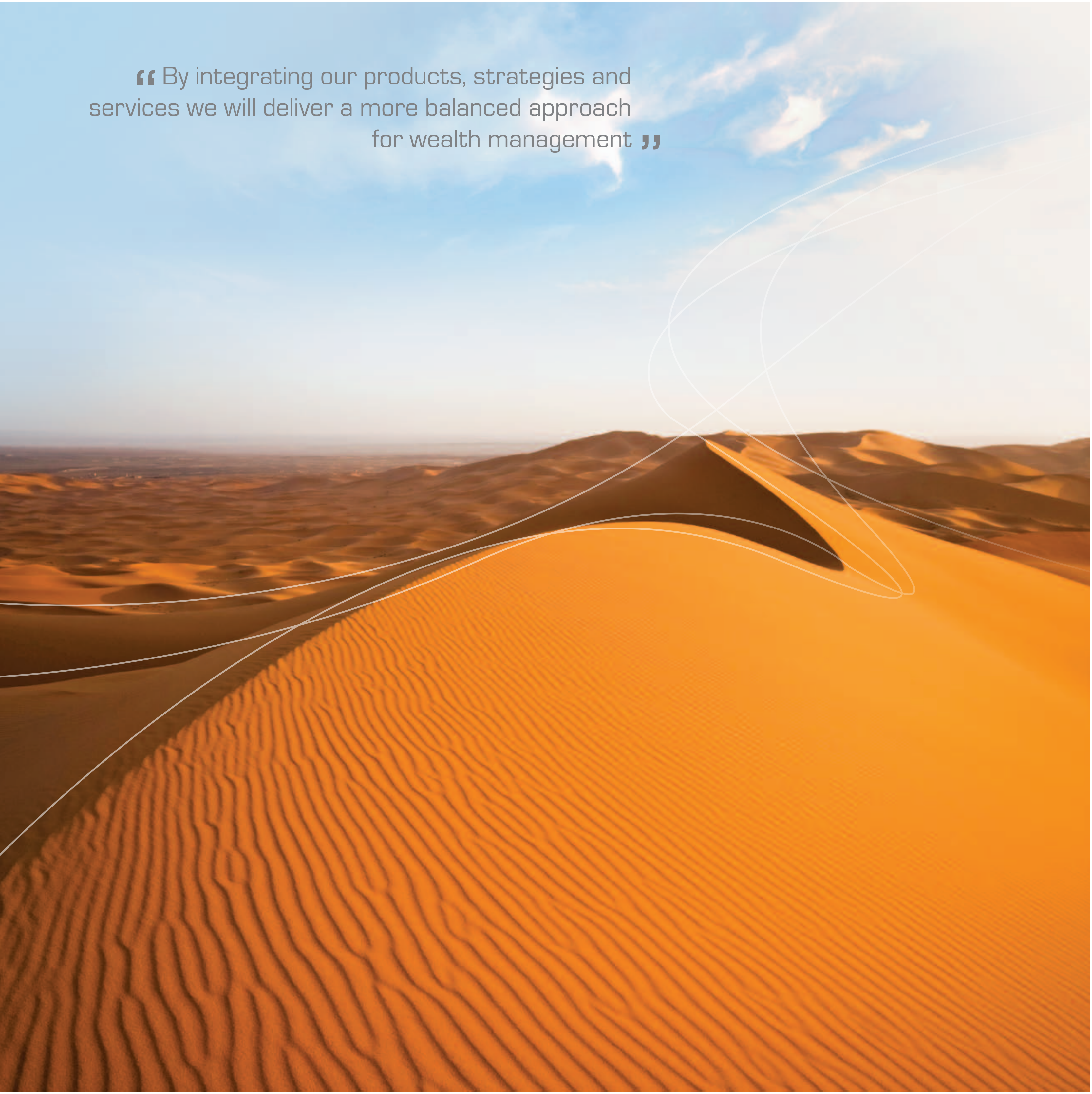
Brokerage

During 2010, the main source of income flowed 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 subsidiaries have well complemented our online trading business and further helped KMEFIC to diversify its income stream.

Online Services

KMEFIC's Online Services continues 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. Furthermore, we continue to strive to offer trading on as

“By integrating our products, strategies and services we will deliver a more balanced approach for wealth management”



Chairman's Message Continued

many markets as possible in the MENA. Active connections now include the markets of Saudi Arabia, Dubai, Abu Dhabi, Kuwait in addition to the U.S. markets.

Corporate Finance

As financial markets around the world become even more complex, market players demand professional counseling with an unsurpassed mixture of market knowledge, legal experience, and innovative thinking. Corporate Finance services will always be in high demand by private equity firms, corporations, banks, and investment funds.

Each year around, Corporate Finance handles multiple buy and sell side acquisition transactions, leveraged finance transactions, dividend recaps, financial structuring, and strategic projects and so on.

The Corporate Finance Department also offers Advisory Services and counsel to investors. Such services can be Asset Valuation, Mergers & Acquisitions, Capital Restructuring, Privatization, Feasibility Studies, Portfolio Structuring and Restructuring as well as other services.

Research

KMEFIC Research Department is purposely designed to be a support function in two main areas: the investment decision making process and the brokerage line of business. The team strives to fulfill its role while maintaining rigorous standards to guarantee the production of high quality research. In addition to this role, KMEFIC Research delivers objective and fact-based reports on the GCC region including: Equity Markets, Countries Outlook, Central Banks Digest, Corporate results, Equity Analysis and Occasional studies as media articles.

The quality of our research stems from an adequate practice of well put policies and procedures covering stages from data collection to reports release steps. The department's output of reports is featured on various elite research providers such as Thomson Reuters, Bloomberg, Zawya, Capital IQ, ISI Emerging Markets and many others.

In 2010, KMEFIC's Research Department continued the expansion of its line of products to cater to a wider variety of brokerage operations client needs. In the equity analysis line, KMEFIC Research continued to cover the telecommunications sector, in addition to the aviation and petrochemical sectors and finally, the cement sector. Moreover, initiation of coverage on companies in the Logistics and Cement sectors were also launched early in 2011.

Closing Thoughts and Outlook

During 2011, KMEFIC will deliver several necessary and unique investment products to the market, and will continue our efforts to develop our strategies that will offer good returns and value to our clients and shareholders. Furthermore, we are advising our clients to reallocate their investments in the financial markets especially after the market fluctuations during the past two years.

In closing, I would like to extend my thanks to members of the KMEFIC family for their hard work and dedication which has driven our transformation through the difficult market headwinds of the last two years.

I would also like to express the company's sincere appreciation to all our shareholders and clients for their continued support and faith in our vision that will drive the company's next phase of long-term earnings growth.

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)

Report on the Consolidated Financial Statements

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 (collectively the "group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 about 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' judgment, 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 group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by group's 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 at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Auditors' Report (Continued)

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the company's Board of Directors 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 2010 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 2010.

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

Bader A. Al Wazzan
Licence No. 62 A
Deloitte & Touche
Al-Fahad, Al-Wazzan & Co.

20 February 2011
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 KD	2009 KD
Assets			
Cash and balances with banks	3	**3,658,451**	3,444,002
Term deposits	4	**418,849**	427,019
Investments	5	**18,952,119**	23,512,971
Loans and advances	6	**9,391,204**	14,417,679
Investment in an associate	7	**8,273,275**	8,230,834
Investment properties	8	**-**	8,540,664
Other assets	9	**2,801,583**	6,233,160
Intangible assets	10	**12,735,532**	12,757,532
Equipment	11	**8,664,350**	8,671,760
Total assets		**64,895,363**	86,235,621
Liabilities and equity			
Liabilities			
Loans from banks and financial institutions	12	**24,180,359**	36,612,364
Accounts payable and other liabilities	13	**3,163,083**	2,994,477
Total liabilities		**27,343,442**	39,606,841
Equity			
Share capital	14	**26,381,499**	26,381,499
Reserves	15	**10,535,753**	19,590,402
		36,917,252	45,971,901
Treasury shares	16	**(1,174,880)**	(1,174,880)
Equity attributable to shareholders of the company		**35,742,372**	44,797,021
Non-controlling interests		**1,809,549**	1,831,759
Total equity		**37,551,921**	46,628,780
Total liabilities and equity		**64,895,363**	86,235,621

Hamed Hamad Al Sanee
Chairman & Managing Director

Hamad Abdul Mohsen Al-Marzouq
Vice Chairman

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2010

	Notes	2010 KD	2009 KD
Income			
Management fees	22	2,267,336	3,058,925
Interest income	17	277,887	1,108,760
Commission income		1,874,909	3,065,702
Net gain(loss) on investments	5	101,207	(100,379)
Dividend income		106,379	175,986
Share of results of associate	7	208,963	(244,184)
Loss on sale of investment properties	8	(363,670)	-
Foreign exchange gain (loss)		61,147	(65,872)
Other income		54,624	186,257
Net operating income		4,588,782	7,185,195
Expenses			
Staff expenses		3,774,715	3,977,352
Other operating expenses		2,214,143	1,950,760
Depreciation and amortization		932,837	849,636
Interest expense	17	881,928	1,278,634
Operating expenses		7,803,623	8,056,382
Operating loss before provision for impairment		(3,214,841)	(871,187)
Provision for impairment of loans and advances and other assets		(3,300,999)	(2,823,850)
Impairment loss on investments available for sale		(2,429,032)	(5,759,387)
Loss for the year		(8,944,872)	(9,454,424)
Attributable to:			
Shareholders of the company		(8,912,327)	(9,442,597)
Non-controlling interests		(32,545)	(11,827)
		(8,944,872)	(9,454,424)
Basic and Diluted Loss Per Share (Fils)	18	(34.1)	(36.2)

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 KD	2009 KD
Loss for the year	**(8,944,872)**	(9,454,424)
Other comprehensive (loss) income		
Exchange differences on translation of foreign operations	**(285,626)**	574,990
Gain (loss) on hedge of net investments (Note 12)	**82,879**	(323,405)
Net unrealised loss on investments available for sale	**(2,256,767)**	(4,312,797)
Net realised gain transferred to consolidated statement of income on disposal of investments available for sale	**(101,207)**	(37,513)
Impairment loss on investments available for sale transferred to consolidated statement of income	**2,429,032**	5,759,387
Other comprehensive (loss) income for the year	**(131,689)**	1,660,662
Total comprehensive loss for the year	**(9,076,561)**	(7,793,762)
Attributable to:		
Shareholders of the company	**(9,054,649)**	(7,778,667)
Non-controlling interests	**(21,912)**	(15,095)
	(9,076,561)	(7,793,762)

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2010

	Attributable to the shareholders of the company				
			Reserves		
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	(Accumulated losses)/ retained earnings KD
Balance at 1 January 2010	26,381,499	1,157,687	6,707,958	6,379,860	1,967,353
Loss for the year	-	-	-	-	(8,912,327)
Other comprehensive income (loss) for the year	-	-	-	-	-
Total comprehensive (loss) income for the year	-	-	-	-	(8,912,327)
Transferred to retained earnings	-	-	-	-	753,743
Other movement in equity of a subsidiary	-	-	-	-	-
Balance at 31 December 2010	**26,381,499**	**1,157,687**	**6,707,958**	**6,379,860**	**(6,191,231)**
Balance at 1 January 2009	23,936,755	1,157,687	6,707,958	6,379,860	13,808,268
Loss for the year	-	-	-	-	(9,442,597)
Other comprehensive income (loss) for the year	-	-	-	-	-
Total comprehensive (loss) income for the year	-	-	-	-	(9,442,597)
Issue of bonus shares	2,398,318	-	-	-	(2,398,318)
Equity share options issued to employees	46,426	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
Other movement in equity of a subsidiary	-	-	-	-	-
Balance at 31 December 2009	26,381,499	1,157,687	6,707,958	6,379,860	1,967,353

The attached notes 1 to 27 form part of these consolidated financial statements.

Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Share options reserve KD	Total reserves KD	Treasury shares KD	Non controlling interests KD	Total KD
600,097	(18,556)	2,042,260	753,743	19,590,402	(1,174,880)	1,831,759	46,628,780
-	-	-	-	(8,912,327)	-	(32,545)	(8,944,872)
60,425	(202,747)	-	-	(142,322)	-	10,633	(131,689)
60,425	(202,747)	-	-	(9,054,649)	-	(21,912)	(9,076,561)
-	-	-	(753,743)	-	-	-	-
-	-	-	-	-	-	(298)	(298)
660,522	**(221,303)**	**2,042,260**	**-**	**10,535,753**	**(1,174,880)**	**1,809,549**	**37,551,921**
(812,248)	(270,141)	2,042,260	753,743	29,767,387	(1,139,220)	2,641,575	55,206,497
-	-	-	-	(9,442,597)	-	(11,827)	(9,454,424)
1,412,345	251,585	-	-	1,663,930	-	(3,268)	1,660,662
1,412,345	251,585	-	-	(7,778,667)	-	(15,095)	(7,793,762)
-	-	-	-	(2,398,318)	-	-	-
-	-	-	-	-	-	-	46,426
-	-	-	-	-	(35,660)	-	(35,660)
-	-	-	-	-	-	(794,721)	(794,721)
600,097	(18,556)	2,042,260	753,743	19,590,402	(1,174,880)	1,831,759	46,628,780

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	31 December 2010 KD	31 December 2009 KD
Operating activities			
Loss for the year		(8,944,872)	(9,454,424)
Adjustments for:			
Interest income	17	(277,887)	(1,108,760)
Gain on disposal of investments available for sale	5	(101,207)	(37,513)
Dividend income		(106,379)	(175,986)
Share of results from an associate	7	(208,963)	244,184
Loss on sale of investment properties	8	363,670	-
Depreciation and amortisation		932,837	849,636
Interest expense	17	881,928	1,278,634
Provision for impairment of loans and advances and other assets		3,300,999	2,823,850
Impairment loss on investments available for sale		2,429,032	5,759,387
Operating loss before changes in operating assets and liabilities		(1,730,842)	179,008
Investments at fair value through statement of income		689	5,206,161
Loans and advances		5,077,248	1,005,673
Other assets		673,894	309,261
Accounts payable and other liabilities		(513,521)	(870,650)
Interest income received		387,688	779,715
Net cash from operating activities		3,895,156	6,609,168
Investing activities			
Fixed deposit matured		8,170	1,916,596
Purchase of investments available for sale		(764,276)	(3,435,808)
Proceeds from sale of investments available for sale	5	3,144,598	5,759,756
Proceeds from sale of investment properties	8	8,200,000	-
Purchase of investment properties		-	(8,540,664)
Purchase of equipment		(1,096,112)	(2,155,063)
Dividend income received		106,379	175,986
Net cash from (used in) investing activities		9,598,759	(6,279,197)
Financing activities			
New loans from banks and financial institutions		1,000,000	26,960,000
Repayment of loans to banks and financial institutions		(13,432,005)	(26,626,415)
Purchase of treasury shares		-	(35,660)
Interest expenses paid		(847,163)	(1,116,746)
Other movement in non-controlling interests		(298)	(794,721)
Net cash used in financing activities		(13,279,466)	(1,613,542)
Increase (Decrease) in cash and balances with banks		214,449	(1,283,571)
Cash and balances with banks at beginning of the year		3,444,002	4,727,573
Cash and balances with banks at end of the year	3	3,658,451	3,444,002

The attached notes 1 to 27 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2010

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 undertaking 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's shares are listed on the Kuwait Stock Exchange. The company is a subsidiary of Ahli United Bank K.S.C. (formerly The Bank of Kuwait and The Middle East K.S.C.) (the "parent company"), which is 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 2010 were authorised for issue in accordance with a resolution of the board of directors on ________ 2011. The shareholders of the company have the power to amend these consolidated financial statements at the annual general meeting.

2.1- 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 the accounting policy for impairment of financial assets.

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

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

2.2- BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2010. 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.

2.2- BASIS OF CONSOLIDATION (Continued)

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding	
			2010	2009
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%
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%**	100%

All investments in subsidiaries are pledged as security for the loan obtained from the parent company (Note 12).

2.3- CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of the following new and amended International Accounting Standards Board (IASB) Standards during the year:

IFRS 3: Business Combinations (Revised) (IFRS 3R) (effective for the period beginning on or after 1 July 2009)

IAS 27: Consolidated and separate financial statements (Revised) (IAS 27R) (effective for the period beginning on or after 1 July 2009)

IAS 39: Financial Instruments: Recognition and Measurement - Eligible hedged items (effective for the period beginning on or after 1 July 2009)

IFRS 3: Business Combinations (Revised) (IFRS 3R)

IFRS 3R introduces significant changes in the accounting for business combinations occurring after the effective date. Changes 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: Consolidated and separate financial statements (Revised) (IAS 27R)

IAS 27R 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 they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The group has concluded that the amendment will have no impact on the financial position or performance of the group, as the group has not entered into any such hedges

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

2.4- STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following International Accounting Standard Board (IASB) Standards relevant to the group have been issued but are not yet mandatory, and have not been early adopted by the group:

IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment becomes effective for annual periods beginning on or after 1 January 2011, clarifies the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

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. The application of IFRS 9 is under local regulatory review for adoption in the State of Kuwait.

IAS 1 Presentation of Financial Statements (Amendment)

The amendment was issued in May 2010 and becomes effective for the financial years beginning on or after 1 January 2011. The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

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.

The application of above standards other than IFRS 9 is not expected to have a material impact on the consolidated financial statements as and when they become effective. The group is assessing the impact and timing of application of IFRS 9 on the group's financial statements.

The application of these standards will be made in the consolidated financial statements when these standards become effective or are early adopted.

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and balances with banks

Cash and balances with banks 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 statement of income", "loans and receivables", "investments available for sale" and "financial liabilities other than at fair value through statement of income". 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 statement of income, directly attributable transaction costs. Transaction costs on investments at fair value through statement of income are expensed immediately.

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

Investments at fair value through statement of income

Investments at fair value through statement of income include financial assets held for trading and financial assets designated upon initial recognition at fair value through statement of income. 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 statement of income 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 statement of income 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.

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 balances with banks, term deposits and certain other assets are classified as “loans and receivables”.

Financial liabilities other than at fair value through statement of income

Financial liabilities other than at fair value through statement of income 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.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

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.

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 investments 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 investments available for sale, 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 equity investments classified as investments 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.

Hedge accounting

The group makes use of 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.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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	7-10	years

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment (Continued)

The equipment' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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.

Equipment is derecognised when either it has been disposed off or when the equipment 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 equipment are recognised in the consolidated statement of income in the period of retirement or disposal.

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 fair value less costs to sell and value in use. 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. In determining the fair value less costs to sell, an appropriate valuation model is used. 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.

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 events 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'.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

2.5- SUMMARY OF 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 is 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.

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Impairment of non financial assets

The company's management tests annually whether non financial assets have suffered impairment. The recoverable amount of an asset is determined based on value-in-use method or fair value less cost to sell. Value in use method uses estimated cash flow projections over the estimated useful life of the asset discounted using a rate that reflect current market amounts of the time value of money and the risks specific to the amount for which further cash flow estimation has not been adjusted. The determination of cash flows and discount factors for value in use method requires significant estimation.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

3- CASH AND BALANCES WITH BANKS

	2010 KD	2009 KD
Cash and bank balances	**1,912,440**	1,596,524
Short term deposits	**1,746,011**	1,847,478
Cash and balances with banks	**3,658,451**	3,444,002

Certain balances included in cash and balances with banks are placed with related parties (Note 20).

Short term deposits bear interest rate at commercial rates, ranging from 1.15% to 5% (2009: 1.25% to 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 2% to 4.25% per annum (2009: 4% to 4.5%) payable quarterly.

5- INVESTMENTS

	2010 KD	2009 KD
Investments at fair value through statement of income		
Financial assets held for trading:		
Quoted equity securities	**399**	406
Equity funds	**34,594**	35,276
	34,993	35,682
Investments available for sale		
Quoted equity securities	**8,466**	221,217
Unquoted equity securities	**4,461,122**	6,093,229
Managed funds	**14,447,538**	17,162,843
	18,917,126	23,477,289
Total investments	**18,952,119**	23,512,971

Investments available for sale include unquoted equity investments carried at cost of KD 270,182 (2009: KD 270,182) 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 3,144,598 (2009: KD 5,759,756), and realised a gain on disposal of KD 101,207 (2009: KD 37,513).

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 statement of income to investments available for sale. The group has recorded unrealised gains of KD 819,314 (2009: unrealised gain of KD 212,868) 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 would have been recorded in the consolidated statement of income.

Certain investments available for sale amounting to KD 14.2 million (2009: KD 16.3 million) are pledged as security with ultimate parent company and parent company for a loan from the parent company (2009: ultimate parent company) (Note 12).

6- LOANS AND ADVANCES

	2010 KD	2009 KD
Loans to customers	**9,047,338**	14,210,692
Loans to staff	**512,003**	425,897
	9,559,341	14,636,589
Less: General provision	**(98,037)**	(148,810)
Less: Impairment	**(70,100)**	(70,100)
	9,391,204	14,417,679

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

	2010 KD	2009 KD
At 1 January	**148,810**	156,423
Charge for the year	**30**	-
Release of excess general provision	**(50,803)**	(7,613)
At 31 December	**98,037**	148,810

All loans and advances and related collateral are pledged as security with ultimate parent company for the loan from the parent company (2009: ultimate parent company) (Note 12).

7- INVESTMENT IN AN ASSOCIATE

The company has 30% (2009: 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 year ended 31 December are as follows:

	2010 KD	2009 KD
Share of associate's assets and liabilities:		
Current assets	**1,051,364**	239,764
Non-current assets	**7,305,421**	8,077,465
Current liabilities	**(64,328)**	(35,982)
Non-current liabilities	**(19,182)**	(50,413)
Net assets	**8,273,275**	8,230,834
Share of associate's income and results		
Operating income	**815,895**	386,721
Profit (loss) for the period	**208,963**	(244,184)

Investment in the associate is pledged with ultimate parent company as security for loan from the parent company (2009: ultimate parent company) (Note 12).

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

8- INVESTMENT PROPERTIES

During the year, the group disposed off investment properties for cash consideration of KD 8,200,000 (2009: Nil), and realised a net loss of KD 363,670 (2009: Nil) in the consolidated statement of income.

9- OTHER ASSETS

	2010 KD	2009 KD
Dues from unsettled trades	**322,287**	345,365
Accrued management fee	**354,164**	641,976
Receivable from disposal of investment	**3,977,707**	3,977,707
Advance paid for acquisition of a property	**2,236,592**	2,307,405
Prepaid expenses	**236,823**	240,466
Others	**1,787,145**	1,481,604
	8,914,718	8,994,523
Less: Provision for doubtful receivables and advances	**(6,113,135)**	(2,761,363)
	2,801,583	6,233,160

10- INTANGIBLE ASSETS

	Key money KD	Brokerage licenses KD	Total KD
Cost			
At 1 January 2010 and 31 December 2010	110,000	12,691,532	12,801,532
Amortisation			
At 1 January 2010	44,000	-	44,000
Amortisation charge for the year	22,000	-	22,000
At 31 December 2010	**66,000**	**-**	**66,000**
Net carrying amount			
At 31 December 2010	**44,000**	**12,691,532**	**12,735,532**
At 31 December 2009	66,000	12,691,532	12,757,532

Brokerage licences represent 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.

Impairment testing

The group determines whether brokerage licenses are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units (CGUs) to which these items are allocated. The recoverable amount is determined based on higher of value-in-use calculations or fair value less selling cost. These calculations use pre tax cash flow projections over a five year period based on historical pattern of trade volume and a relevant terminal growth rate. Terminal growth beyond the five year period has been extrapolated using a growth rate which does not exceed the long term average growth rate of Kuwait. The discount rate used is pre tax and reflects specific risks relating to the relevant CGU.

The group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors result in the intangible assets being impaired. Based on the above analysis, there are no indications that intangible assets are impaired.

11- EQUIPMENT

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2010	2,389,630	1,138,545	724,471	6,995,733	11,248,379
Additions	11,812	30,574	22,185	1,172,807	1,237,378
Disposals	(153,286)	(390)	-	(272,666)	(426,342)
Transfer from capital work in progress	-	480,475	4,755,865	(5,236,340)	-
Foreign currency adjustment	(3,040)	(2,413)	(1,064)	-	(6,517)
At 31 December 2010	**2,245,116**	**1,646,791**	**5,501,457**	**2,659,534**	**12,052,898**
Accumulated depreciation					
At 1 January 2010	1,179,134	830,945	566,540	-	2,576,619
Depreciation	429,352	176,159	305,326	-	910,837
Disposals	(94,374)	(186)	-	-	(94,560)
Foreign currency adjustment	(1,645)	(1,708)	(995)	-	(4,348)
At 31 December 2010	**1,512,467**	**1,005,210**	**870,871**	**-**	**3,388,548**
Net book value at 31 December 2010	**732,649**	**641,581**	**4,630,586**	**2,659,534**	**8,664,350**

	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

Capital work in progress represents IT project under development. Interest on term loan of KD 141,266 (2009: KD 159,085) has been capitalised as part of capital work in progress.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

12- LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

	2010 KD	2009 KD
Secured bank loans	**24,180,359**	36,612,364

Secured bank loans represent loans from the parent company (2009: parent company and the ultimate parent company), secured by mortgaging assets of the company comprising investment in subsidiaries (Note 2), certain investments available for sale (Note 5), loans and advances (Note 6) and investment in an associate (Note 7).

Hedge of net investments in foreign operations

Included in loans from banks and financial institutions are loans of KD 4,420,359 (2009: KD 2,459,952) denominated in foreign currency USD 15,711,246 (2009: 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 gain arising on translation of the hedging instruments (loans) amounting KD 82,879 (2009: loss of KD 323,405) were taken directly to other comprehensive income. There is no ineffectiveness at 31 December 2010.

13- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2010 KD	2009 KD
Staff payables	**1,620,509**	1,422,184
Loan interest payable	**540,479**	364,448
Brokerage payables	**130,816**	511,846
Others	**871,279**	695,999
	3,163,083	2,994,477

14- SHARE CAPITAL

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

	2010 KD	2009 KD
Authorised: 263,814,991 shares of 100 fils each	**26,381,499**	26,381,499
Issued and fully paid up: 263,814,991 shares of 100 fils each	**26,381,499**	26,381,499

The issued and fully paid up capital includes 15,837,638 shares (2009: 15,837,638 shares) on account of share option plan for employees.

15- RESERVES

Share premium and treasury shares reserve

The share premium represents premiums collected upon issuing new shares to employees under Employee Stock Option Plan. The balances of share premium and treasury shares reserve are 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 to be 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 to be 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.

16- TREASURY SHARES

	2010 KD	2009 KD
Number of own shares	2,623,500	2,623,500
Percentage of issued shares	1%	1%
Book Value (KD)	1,174,880	1,174,880
Market value (KD)	204,633	228,245

17- INTEREST INCOME AND INTEREST EXPENSE

	2010 KD	2009 KD
Interest income:		
Term deposits and bank balances	95,956	166,861
Loans and advances	181,931	941,899
Total interest income	277,887	1,108,760
Interest expense:		
Bank borrowings	881,928	1,278,634

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

18- BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the year presented in the consolidated statement of income is calculated as follows:

	2010 KD	2009 KD
Loss for the year attributable to the shareholders of the company (KD)	(8,912,327)	(9,442,597)
Weighted average number of shares outstanding during the year	261,191,491	261,110,910
Basic and diluted loss per share (fils)	(34.1)	(36.2)

The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares.

	2010	2009
Weighted average number of issued and paid up shares	263,814,991	263,697,972
Less: Weighted average number of treasury shares	(2,623,500)	(2,587,062)
Weighted average number of shares for basic and diluted earnings per share	261,191,491	261,110,910

19- 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 464,262 shares as stock option to employees.

As of 31 December 2010 1,978,485 stock options were not exercised (31 December 2009: 1,978,485).

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.

19- EMPLOYEE SHARE OPTION 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	6,443,577		
Bonus shares on 2006 plan	1,182,880		
Options exercised for the 2006 plan	(5,647,972)	0.217	0.510
Outstanding options as at 31 December 2010	1,978,485		

20- 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 company's management.

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

	Number of directors and executive officers		Amount (KD)	
	2010	2009	**2010**	2009
Directors				
Loans and advances	**1**	1	**295,000**	295,000
Key Management Personnel				
Loans and advances	**1**	1	**77,000**	62,000

Related party balances

	2010 KD	2009 KD
Receivable from parent company	**86,656**	52,980
Receivable from other related parties	**187,931**	93,305
Deposits placed with parent company (Note 3)	**1,324,190**	1,107,189
Loans taken from parent company (Note 12)	**24,180,359**	26,960,000
Loans taken from ultimate parent company (Note 12)	**-**	9,652,364
Guarantees	**1,785,376**	2,991,921
Investments and funds managed in a fiduciary capacity	**33,135,617**	37,508,822

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

20- RELATED PARTY TRANSACTIONS (Continued)

Related party transactions	**2010**	2009
	KD	KD
Management fees earned	**46,367**	88,321
Interest income	**32,110**	32,614
Interest expense	**1,023,194**	1,397,706

Interest on term loan of KD 141,266 (2009: 159,085) has been capitalised as part of capital work in progress

Key management compensation:	**2010**	2009
	KD	KD
Salaries and other short term benefits	**615,384**	671,008

21- COMMITMENTS AND CONTINGENT LIABILITIES

	2010	2009
	KD	KD
Capital commitments for purchase of equipment	**692,042**	671,227
Guarantees	**1,999,371**	2,991,921
Uncalled capital contributions relating to investments available for sale	**505,073**	940,395

Guarantees issued by the group noted above exclude a guarantee of KD 42.91 million (2009: KD 43.75 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.

22- 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 732 million equivalent to US$ 2,600 million (2009: KD 690 million equivalents to US$ 2,406 million). Management fee of KD 2,267,336 (2009: KD 3,058,925) has been recognised by the company for management of fiduciary assets.

23- 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 statement of income, investments available for sale, investment in associates and investment properties is based on management's estimate of liquidation of these financial assets.

23- MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

The maturity profile of the assets and liabilities at 31 December 2010 and 31 December 2009 are as follows:

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Assets										
Cash and balances with banks	**3,152,620**	2,928,002	**505,831**	516,000	**-**	-	**-**	-	**3,658,451**	3,444,002
Term deposits	**-**	-	**-**	-	**-**	427,019	**418,849**	-	**418,849**	427,019
Investments available for sale	**8,561,551**	221,217	**34,993**	35,682	**1,926,144**	-	**8,429,431**	23,256,072	**18,952,119**	23,512,971
Loans and advances	**64,350**	2,685,497	**99,000**	7,981,004	**9,137,764**	3,701,178	**90,090**	50,000	**9,391,204**	14,417,679
Investment in an associate	**-**	-	**-**	-	**-**	-	**8,273,275**	8,230,834	**8,273,275**	8,230,834
Investment properties	**-**	-	**-**	-	**-**	-	**-**	8,540,664	**-**	8,540,664
Other assets	**284,877**	2,468,945	**132,182**	240,466	**1,188,371**	3,523,749	**1,196,153**	-	**2,801,583**	6,233,160
Intangible assets	**-**	-	**-**	-	**-**	-	**12,735,532**	12,757,532	**12,735,532**	12,757,532
Equipment	**-**	-	**-**	-	**-**	-	**8,664,350**	8,671,760	**8,664,350**	8,671,760
	12,063,398	8,303,661	**772,006**	8,773,152	**12,252,279**	7,651,946	**39,807,680**	61,506,862	**64,895,363**	86,235,621
Liabilities										
Loans from banks and financial institutions	**11,260,000**	-	**-**	12,326,364	**12,920,359**	24,286,000	**-**	-	**24,180,359**	36,612,364
Accounts payable and other liabilities	**511,168**	511,846	**346,540**	1,060,447	**1,052,560**	288,200	**1,252,815**	1,133,984	**3,163,083**	2,994,477
	11,771,168	511,846	**346,540**	13,386,811	**13,972,919**	24,574,200	**1,252,815**	1,133,984	**27,343,442**	39,606,841
Net liquidity gap	**292,230**	7,791,815	**425,466**	(4,613,659)	**(1,720,640)**	(16,922,254)	**38,554,865**	60,372,878	**37,551,921**	46,628,780

The management is in negotiation with its lender, namely its parent company to reschedule the short term loans to medium term financing facility up to 3 years. The Management expects the rescheduling to be successful.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

24- 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, real estate activities 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 2010 and 31 December 2009 are as follows:

	Asset management KD	Brokerage & online trading KD	Credit operations KD	Principal investment & treasury KD	Unallocated KD	Total KD
As at 31 December 2010						
Segment revenue	2,267,336	1,874,909	277,887	168,650	-	4,588,782
Segment expenses	(1,885,610)	(2,442,958)	(42,421)	(8,852,708)	(309,957)	(13,533,654)
Segment results	381,726	(568,049)	235,466	(8,684,058)	(309,957)	(8,944,872)
Segment assets	321,842	13,285,889	9,391,204	34,310,511	7,585,917	64,895,363
Segment liabilities	-	-	(7,500,000)	(12,257,525)	(7,585,917)	(27,343,442)
	321,842	13,285,889	1,891,204	22,052,986	-	37,551,921
Other segmental information:						
Depreciation and amortisation	187,791	318,757	-	116,332	309,957	932,837
Capital expenditure	-	-	-	64,571	1,172,807	1,237,378
Impairment losses on investments available for sale	-	-	-	2,429,032	-	2,429,032

24- SEGMENT INFORMATION (Continued)

	Asset management KD	Brokerage & online trading KD	Credit operations KD	Principal investment & treasury KD	Unallocated KD	Total KD
As at 31 December 2009						
Segment revenue	3,015,184	3,045,283	1,108,760	15,968	-	7,185,195
Segment expenses	(1,630,250)	(2,912,131)	(62,487)	(12,034,751)	-	(16,639,619)
Segment results	1,384,934	133,152	1,046,273	(12,018,783)	-	(9,454,424)
Segment assets	464,190	13,674,065	14,417,679	50,683,954	6,995,733	86,235,621
Segment liabilities	-	-	(7,500,000)	(25,111,108)	(6,995,733)	(39,606,841)
	464,190	13,674,065	6,917,679	25,572,846	-	46,628,780
Other segmental information:						
Depreciation and amortisation	204,010	515,838	-	129,788	-	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

Geographical information

As at 31 December 2010	Total income KD	Non-current assets KD
Kuwait	4,092,998	20,657,260
International	495,784	9,015,897
	4,588,782	**29,673,157**

As at 31 December 2009	Total Income KD	Non-current assets KD
Kuwait	6,779,635	21,099,153
International	405,560	17,101,637
	7,185,195	**38,200,790**

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.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

25- 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 5), 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 2010, 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.

	Level: 1	Level: 2	Total
31 December 2010	KD	KD	KD
Investments at fair value through statement of income			
Equity securities	399	-	399
Equity funds	34,594	-	34,594
	34,993	**-**	**34,993**
Investments available for sale			
Equity securities	8,466	4,185,753	4,194,219
Managed funds	8,553,084	5,899,641	14,452,725
	8,561,550	**10,085,394**	**18,646,944**

	Level: 1	Level: 2	Total
31 December 2009	KD	KD	KD
Investments at fair value through statement of income			
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

There are no financial instruments classified under level 3 and there have been no reclassification from level 3.

26- 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.

26.1- 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 individual 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.

	2010	2009
	KD	KD
Bank balances	**3,647,590**	3,435,096
Term deposits	**418,849**	427,019
Loans and advances	**9,391,204**	14,417,679
Other assets	**1,486,036**	3,685,289
Gross maximum credit risk exposure	**14,943,679**	21,965,083

The maximum credit exposure to any single client or counterparty as of 31 December 2010 was KD 7,500,000 (2009: KD 7,500,000) before taking account of collateral or other credit enhancements and KD Nil (2009: KD Nil) net of such protection.

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

26- RISK MANAGEMENT (Continued)

26.1- CREDIT RISK (Continued)

Collateral and other credit enhancements

Loans and advances are secured against property, 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 2010 amounts to KD 21,146,729 (2009: KD 38,324,424).

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.

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	
	2010	2009	**2010**	2009
	KD	KD	**KD**	KD
Geographic region:				
Kuwait	**12,082,504**	18,536,833	**1,785,376**	2,991,921
Other Middle East	**2,766,847**	3,275,070	**213,995**	-
Rest of the World	**94,328**	153,180	**1,197,115**	1,611,622
	14,943,679	21,965,083	**3,196,486**	4,603,543

	Assets		Contingent liabilities and commitments	
	2010	2009	**2010**	2009
	KD	KD	**KD**	KD
Industry sector:				
Banks and financial institutions	**12,245,081**	12,578,459	**2,504,444**	3,932,316
Other	**2,698,598**	9,386,624	**692,042**	671,227
	14,943,679	21,965,083	**3,196,486**	4,603,543

26- RISK MANAGEMENT (Continued)

26.1- CREDIT RISK (Continued)

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 standard grade.

Analysis of past due but not impaired financial assets

As at 31 December 2010, loans and advances exposed to credit risk of KD 7,713,984 (2009: KD 213,984) were past due but not impaired.

Impaired and renegotiated financial assets

As at 31 December 2010, other assets, and loans and advances exposed to credit risk of KD 6,313,303 (2009: KD 4,047,807) were impaired against which the group carries a provision of KD 6,183,235 (2009: KD 2,831,283). The group has not renegotiated any asset that would otherwise be past due or impaired.

26.2- 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 balances with banks, 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:

Notes to the Consolidated Financial Statements (Continued)

At 31 December 2010

26- RISK MANAGEMENT (Continued)

26.2- LIQUIDITY RISK (Continued)

Financial liabilities	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Loans from banks and financial institutions	**11,262,159**	-	**-**	12,454,888	**13,242,977**	24,728,605	**-**	-	**24,505,136**	37,183,493
Accounts payable and other liabilities	**511,168**	511,846	**346,540**	1,060,447	**1,052,560**	288,200	**1,252,815**	1,133,984	**3,163,083**	2,994,477
Total undiscounted financial liabilities	**11,773,327**	511,846	**346,540**	13,515,335	**14,295,537**	25,016,805	**1,252,815**	1,133,984	**27,668,219**	40,177,970
Contingent liabilities and commitments	**-**	-	**692,042**	-	**1,999,371**	3,663,148	**505,073**	940,395	**3,196,486**	4,603,543

Refer to Note 23 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above; which exclude future interest payments.

26.3 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.

26.3.1- 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 balances with banks, term deposits, loans and advances, and loans from banks and financial institutions.

26- RISK MANAGEMENT (Continued)
26.3 MARKET RISK (Continued)
26.3.1- Interest rate risk (Continued)

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 loss	
	2010	2009
	KD	KD
Kuwaiti Dinar	**(26,473)**	(33,331)
US Dollar	**(9,468)**	(14,383)
GCC currencies	**-**	(6,150)
Other currencies	**-**	(1,251)

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

26.3.2- 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 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 due to a reasonable possible change in the equity indices, with all other variables held as constant is as follows:

		2010		2009	
Market indices	**Changes in equity price %**	**Effect on loss KD**	**Effect on equity KD**	Effect on loss KD	Effect on equity KD
Kuwait Index	10%	**-**	**697,103**	-	462,739
Other GCC Indices	10%	**-**	**253,647**	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.

26.3.3- 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 2010

26- RISK MANAGEMENT (Continued)

26.3 MARKET RISK (Continued)

Net assets denominated in foreign currencies

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

	2010	2009
	KD	KD
US Dollar	**(1,980,741)**	(5,544,776)
GCC currencies	**3,262,014**	(2,410,016)
Other currencies	**1,475,694**	(474,565)
	2,756,967	(8,429,357)

The effect on profit (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 loss	
	2010	2009
	KD	KD
US Dollar	**181,298**	277,239
GCC currencies	**(81,617)**	120,501
Other currencies	**(73,361)**	23,728

26.3.4- 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.

27- 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 year ended 31 December 2010.

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 framework the necessary test to ensure the continuous and full compliance with such regulations.