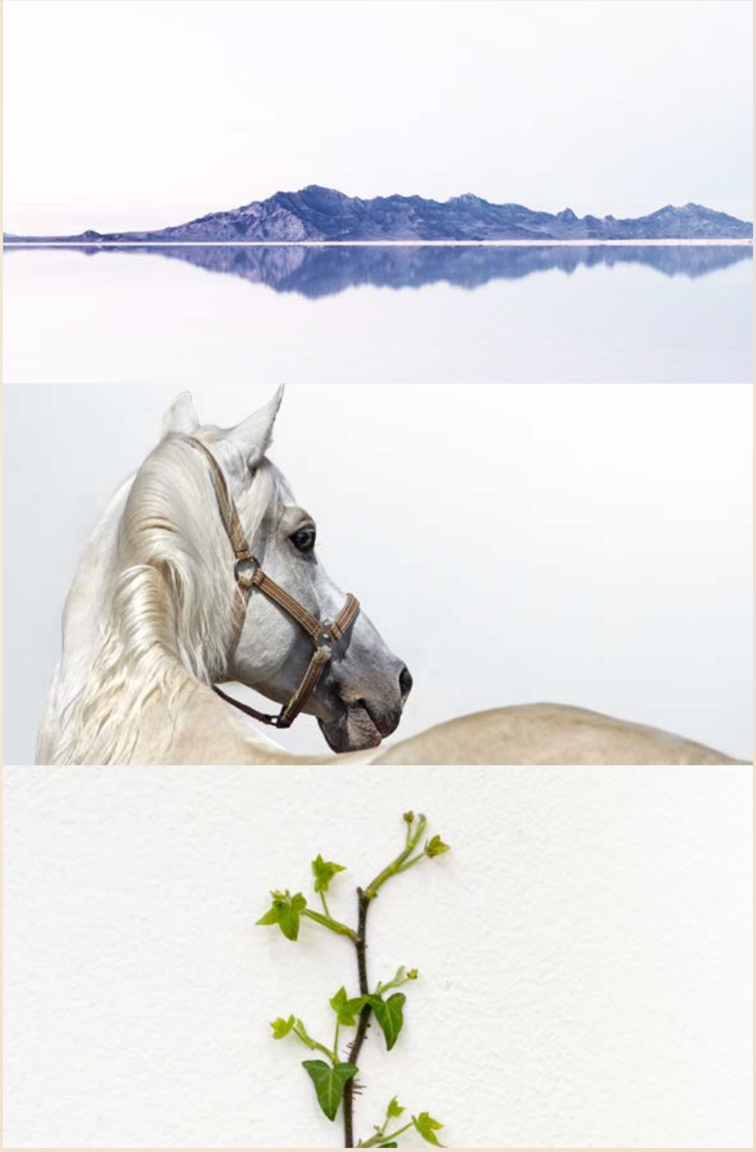
KMEFIC



Annual Report
2012

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

His Highness Sheikh Jaber Mubarak Al-Hamad Al-Sabah
Prime Minister of the State of Kuwait


Stability.

Chairman's Message

Dear Shareholders,

If we are to describe the global socio-economic conditions in one word, turbulence would be the best picture for the year 2012. From the problem-clouded European countries to tensions accompanying a last-minute avoided US Fiscal Cliff, the world went through a lot during the past year.

Despite the continuing dilemma of global woes, oil exporting countries continued to grow at relatively healthy rates. In a recent report, the International Monetary Fund (IMF) says growth rates in GCC countries remained robust owing to expansionary fiscal policies and accommodative monetary conditions. The report which outlooks MENA region states that in the medium-term, the challenge for GCC and surrounding countries is to generate enough jobs for a young and rapidly growing population. The average GDP growth rate for GCC countries is expected to slow from 7.5% in 2011 to 3.75% in 2013 as oil production reaches a plateau. Despite growth forecasts, the current account surpluses that GCC countries generate are very sensitive to changes in the oil price. The regional governments' expenditure on wages and salaries has been rising dramatically in recent years and fiscal breakeven prices have risen faster than the actual oil price and are expected to continue to rise, increasing the vulnerability to a negative oil price shock. That said, countries with no buffers to tolerate oil price shocks face key risk should the slowdown in global economic activity craft a sustained drop in oil price.

Currently, the most recent data released by IMF presumes 6% growth rate in Kuwait's GDP for 2012, exceeding the average of 5% for GCC countries. However, for the medium term forecasts, IMF sees Kuwait's growth rate shrinking to around 4% by 2017, slightly below the GCC average rate of 4.25% then. While the analysis might look relatively good concerning the global economic slowdown, the trend is alarming. Although Kuwait does not lack the elements to transform its economy from oil dependent to diversified, it actually lacks the geo-political infrastructure to achieve such a goal. Rising political tensions need to be contained in order to focus on the development plan.

Kuwait's inflation rate eased during the second quarter of 2012 only to continue again its upward trend. Compared to its value in December 2011, Kuwait's consumer price index registered some 1.6% increase by October 2012. Money Supply grew faster during the period adding 3.3%. Data by Central Bank of Kuwait's also show 8% growth in the balance of Credit Facilities to the private sector.

Stock markets of GCC countries lacked a harmonized performance during 2012 stressing more and more a status of regional dis-correlation, the case since the global financial crisis ignited. Bahrain Bourse remained solo in the red ending the year with 6.83% losses; at the contrary and with widely dispersed gain levels, the UAE stock markets, Kuwait Stock Exchange, and Muscat Securities markets recovered from the double digits losses they all witnessed in 2011. However, both Dubai and Abu Dhabi exchanges significantly outpaced gains of their peers. In fact, Dubai Financial Market pioneered with 19.9% gains marking a milestone to remember owing to a fully revived economic

Hamed Hamad Al Sanee
Chairman & Managing Director


Performance.

activity; Abu Dhabi's general index did not make it to a double digits number, however it rose by 9.5%, a hike relatively far from that of the Saudi's Tadawul index of 6%. Qatar Exchange, 2011's sole gainer appreciated in 2012 by 4.6%. Finally, the main indices of Kuwait Stock Exchange and Muscat Securities Market tailed the list with 3% and 1.2% respectively due to the lagging recovery pace of companies as compared to neighboring countries.

Company's performance

The year 2012 continued to be a stagnant year for the Kuwaiti capital markets, which reflected on KMEFIC's performance negatively and led the company to achieve total revenue of KD 4.0 million, slightly lower compared to KD 4.34 million in the previous year. On the positive side, the sustained efforts made by the management to boost the company's performance by improving business activities and at the same time reducing costs, finally began to bear results; key improvements were seen in various areas culminating in a net loss of KD 1.1 million, a significant improvement from the loss of KD 11.8 million in the previous year. The company's brokerage business witnessed growth, both in market share and revenue leading to a commission income of KD 1.47 million (higher by 21.2% compared to KD 1.21 million in the previous year) representing approximately 36.6% of total revenue. The company managed to earn management fees of KD 2.05 million (representing 51.2% of the total revenue) which was close to previous year's fee income of KD 2.17 million (representing 49.9% of the total revenue), despite the depressed market conditions. Share of results from Associate improved to KD 0.49 million (higher by 32.8% compared to KD 0.37 million in the previous year) constituting 12.4% of total revenue. The company however, booked a net loss of KD 192 thousand (as compared to a net gain of KD 338 thousand in the previous year) on investments as a result of the negative market conditions.

Various improvements were witnessed on the cost side as well, wherein the results of steps taken by the management to optimize resources were reflected in reduction of operating expenses by 27.7%, mainly reduction in staff cost by 22.7%, other operating expenses by 38.6% and depreciation by 39.9%. The provision and impairment losses were only KD 59 thousand as compared to KD 7.66 million in the previous year and a gain of KD 141 thousand was generated from discontinued operations compared to loss of KD 1.5 million in the previous year. The aforementioned improvements culminated in overall progress in the company's performance and the net loss attributable to its' shareholders improved to KD 1.1 million as compared to a loss of KD 11.8 million in 2011. This translated into basic and diluted loss per share of (4.2) fils in 2012 compared to basic and diluted loss per share of 45.3 fils in 2011. The company's management expects to sustain and continue the significant improvement witnessed in 2012 and lead the company back to sound and stable financial health in the near future.

Asset Management

The end of year composite results for KMEFIC equity strategies were hard won. While it was a difficult environment to navigate given the political uncertainty in Kuwait, discretionary portfolios and Al Rou'yah Fund were able to generate modest positive returns which came alongside volatility levels that are slightly below that of the market.

KMEFIC's international strategies have also undergone their own investment revolution as we made a shift from traditional developed markets to emerging and alternative asset classes providing solid risk-adjusted returns to individual and institutional investors. Lastly, in the Financial Derivatives product line our futures and forward portfolios outperformed KSE index extending the team's winning streak to four years of solid relative returns.

Given KMEFIC's history of supporting innovation coupled with the newly established NASDAQ/OMX System being introduced at the Kuwait Stock Exchange, we have been in discussions with the appropriate entities to introduce new investment vehicles and instruments to the local capital markets.

Despite the traces of local political uncertainties and the widening concerns of a global slow-down in economic growth that were dominant in 2012; we remain optimistic given our stable asset management business model and the ability to deliver innovative new products to the marketplace.

Brokerage

During 2012, the principal source of income was mainly driven by the online trading alawsat.com coupled with the brokerage operations represented by our subsidiary:

Middle East Financial Brokerage Company "MEFBC-Kuwait". In 2012 MEFBC was able to achieve leaps on its position and ranking level among other brokerage


Growth.

Chairman's Message (continued)

financial companies inside Kuwait by providing paramount financial brokerage services. Furthermore, MEFBC has launched its new website during the year supported by modern software, a development to facilitate the exchange of information between the company and its clients seeking to achieve excellence in the financial brokerage services.

Online Services

KMEFIC's Online Services continue to pursue our vision of translating technological innovations into profitable ventures while striving to attain profitability by utilizing the current potential of technology to create new and diversified services and products. We continue to offer the online trading on the markets of Kuwait, Saudi Arabia, Dubai, Abu Dhabi and Qatar in addition to the U.S. markets.

Moreover and as a step to further maintain its powerful image in technology, KMEFIC will launch its new online trading application "KMEFIC Trader" during the 2nd Quarter of 2013. "KMEFIC Trader" application is just the first stage into changing the online trading experience to a new stream of future services.

Research

KMEFIC Research Department was purposely designed to be a support function in two main areas: the investment decision making process and the brokerage line of business. The department aims to fulfill its role while maintaining rigorous standards to guarantee the production of high quality research. Furthermore, the department delivers objective and fact-based analysis within the GCC via key reports, including: Daily Stock Market Reports, Central Banks Digest, Corporate Results, Equity Analysis, and Occasional Studies published as media articles.

The quality of KMEFIC's research is a normal result of strict adherence to well put Policies and Procedures covering the entire research process, from data collection to report distribution. In addition, KMEFIC's Research Department is committed to monitoring the fundamental variables driving global, regional, and local markets' behavior and studies the current settings of each market through four main aspects, namely, Macroeconomic Climate, Industry Outlook, Stock Markets Research, and Equity Analysis.

Closing Thoughts and Outlook

The political and economic changes of last year will continue to echo in 2013. The state of the global economy remains tenuous, keeping policy makers worldwide occupied. Collectively, we have seen developed-market policymakers establishing loose monetary policies in 2012 to support slowing global growth, and we expect this trend to continue in 2013, but that should come with increased volatility and low visibility across all asset classes.

We aim to maintain a highly selective investment approach targeting markets of countries with favorable macro conditions; our universe of investments shall have a further bias towards companies with solid fundamentals in addition to investment opportunities with potentially better revenue.

In closing, my appreciation and thankfulness goes to all of KMEFIC's management and staff for their continued loyalty, perseverance and commitment which will enable the company to go forward and achieve its goals and objectives set for 2013. Finally, I would like to extend the company's sincere gratitude to all our shareholders and clients for their continued support and belief in KMEFIC's vision.

Hamed Hamad Al-Sanee
Chairman & Managing Director

Board of Directors

Hamad A. Al-Marzouk
Vice Chairman

Ahmed Zulficar
Director

Jihad Al Humaidhi
Director

Prakash Mohan
Director

Herschel Post
Director

Sanjeev Baijal
Director

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 (together, the "Group"), which comprise the consolidated balance sheet as at 31 December 2012, 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 as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of 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' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, 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.

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 Capital Adequacy Regulations issued by the Companies Law No. 25 of 2012, 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 violations of the Companies Law No. 25 of 2012, nor of the Articles of Association have occurred during the year ended 31 December 2012 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 2012.

Talal Y. Al Muzaini
Licence No. 209 A
Deloitte & Touche
Al-Fahad Al-Wazzan & Co.

Waleed A. Al Osaimi
Licence No. 68 A
Ernst & Young
Al Aiban, Al Osaimi & Partners

31/01/2013
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 KD	2011 KD
Assets			
Cash and balances with banks	3	**1,867,404**	1,966,086
Term deposits	4	**50,000**	464,361
Investments	5	**15,868,098**	16,763,727
Loans and advances	6	**8,558,657**	8,853,881
Investment in an associate	7	**9,237,342**	8,353,284
Other assets	8	**1,458,455**	1,684,743
Intangible assets	9	**12,500,000**	12,500,000
Equipment	10	**1,460,092**	1,953,845
Non-current assets held for sale	11	**853,123**	993,786
Total assets		**51,853,171**	53,533,713
Liabilities and equity			
Liabilities			
Loans from banks and financial institutions	12	**24,138,765**	24,089,623
Accounts payable and other liabilities	13	**4,080,530**	5,274,020
Total liabilities		**28,219,295**	29,363,643
Equity			
Share capital	14	**26,381,499**	26,381,499
Reserves	15	**(3,163,555)**	(2,630,597)
		23,217,944	23,750,902
Treasury shares	16	**(1,174,880)**	(1,174,880)
Equity attributable to shareholders of the company		**22,043,064**	22,576,022
Non-controlling interests		**1,590,812**	1,594,048
Total equity		**23,633,876**	24,170,070
Total liabilities and equity		**51,853,171**	53,533,713

Hamed Hamad Al Sanee
Chairman & Managing Director

Hamad Abdul Mohsen Al-Marzouk
Vice Chairman

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2012

	Notes	2012 KD	2011 KD
Continuing operations			
Income			
Management fees	23	2,052,619	2,165,719
Interest income	17	88,718	103,668
Commission income		1,467,185	1,210,682
Net loss on investments		(283,261)	(5,312)
Dividend income		91,342	343,608
Share of results from an associate	7	496,302	373,672
Foreign exchange gain		58,780	70,848
Other income		33,587	75,546
Net operating income		4,005,272	4,338,431
Expenses			
Staff expenses		2,290,900	2,963,072
Other operating expenses		1,428,392	2,326,212
Depreciation	10	603,013	1,004,799
Interest expense		852,967	868,961
Operating expenses		5,175,272	7,163,044
Operating loss before provisions and impairment losses		(1,170,000)	(2,824,613)
Provisions and impairment losses	18	(59,227)	(7,660,736)
Loss for the year from continuing operations		(1,229,227)	(10,485,349)
Discontinued operations			
Profit/ (loss) for the year from discontinued operations	11	141,063	(1,545,981)
Loss for the year		(1,088,164)	(12,031,330)
Attributable to:			
Shareholders of the company		(1,090,169)	(11,839,281)
Non-controlling interests		2,005	(192,049)
		(1,088,164)	(12,031,330)
Basic and diluted loss per share (fils)	19	(4.2)	(45.3)
Basic and diluted loss per share from continuing operations (fils)	19	(4.7)	(39.5)

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 KD	2011 KD
Loss for the year	**(1,088,164)**	(12,031,330)
Other comprehensive gain/(loss)		
Exchange differences on translation of foreign operations	**113,036**	(25,787)
(Loss)/ gain on hedge of net investments (Note 12)	**(48,908)**	48,943
Changes in fair value of investments available for sale	**204,581**	(2,274,384)
Net realised loss/ (gain) transferred to consolidated statement of income on disposal of investments available for sale (Note 5)	**283,261**	(7,031)
Impairment loss on investments available for sale transferred to consolidated statement of income (Note 18)	**-**	907,738
Other comprehensive gain/(loss) for the year	**551,970**	(1,350,521)
Total comprehensive loss for the year	**(536,194)**	(13,381,851)
Attributable to:		
Shareholders of the company	**(532,958)**	(13,166,350)
Non-controlling interests	**(3,236)**	(215,501)
	(536,194)	(13,381,851)

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 KD	2011 KD
Operating activities			
Loss for the year from continuing operations		(1,229,227)	(10,485,349)
Profit/ (loss) for the year from discontinued operations		141,063	(1,545,981)
Adjustments for:			
Interest income	17	(88,718)	(103,668)
Loss/(gain) on disposal of investments available for sale	5	283,261	(7,031)
Unrealised loss on investments at fair value through statement of income		-	12,343
Dividend income		(91,342)	(343,608)
Share of results from an associate	7	(496,302)	(373,672)
Depreciation	10	603,013	1,004,799
Interest expense		852,967	868,961
Provision and impairment losses	18	59,227	7,660,736
Operating loss before changes in operating assets and liabilities		33,942	(3,312,470)
Investments at fair value through statement of income		(249)	761
Loans and advances		314,942	618,508
Other assets		303,260	(84,133)
Accounts payable and other liabilities		(741,363)	1,637,499
Interest income received		116,975	96,618
Net cash from (used in) operating activities		27,507	(1,043,217)
Investing activities			
Term deposits matured (invested)		414,361	(45,712)
Purchase of investments available for sale		(72,865)	(505,538)
Proceeds from disposal of investments available for sale	5	663,570	602,903
Proceeds from sale of non-current assets		114,628	-
Purchase of equipment, net of disposal of equipment		(70,287)	(168,413)
Dividend income received		91,342	343,608
Net cash from investing activities		1,140,749	226,848
Financing activities			
Repayment of loans to banks and financial institutions		-	(90,736)
Interest expense paid		(1,266,938)	(785,260)
Net cash used in financing activities		(1,266,938)	(875,996)
Decrease in cash and cash equivalents		(98,682)	(1,692,365)
Cash and balances with banks			
at beginning of year		1,966,086	3,658,451
at end of year	3	1,867,404	1,966,086

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2012

	Attributable to the shareholders of the company				
		Reserves			
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Accumulated losses KD
Balance at 1 January 2012	26,381,499	1,157,687	6,707,958	6,379,860	(18,030,512)
(Loss) gain for the year	-	-	-	-	(1,090,169)
Other comprehensive income (loss) for the year	-	-	-	-	-
Total comprehensive (loss) income for the year	-	-	-	-	(1,090,169)
Balance at 31 December 2012	**26,381,499**	**1,157,687**	**6,707,958**	**6,379,860**	**(19,120,681)**

	Attributable to the shareholders of the company				
		Reserves			
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Accumulated losses KD
Balance at 1 January 2011	26,381,499	1,157,687	6,707,958	6,379,860	(6,191,231)
Loss for the year	-	-	-	-	(11,839,281)
Other comprehensive (loss) income for the year	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(11,839,281)
Balance at 31 December 2011	26,381,499	1,157,687	6,707,958	6,379,860	(18,030,512)

The attached notes 1 to 28 form part of these consolidated financial statements.

Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Total reserves KD	Treasury shares KD	Non controlling interests KD	**Total equity** KD
(693,050)	(194,800)	2,042,260	(2,630,597)	(1,174,880)	1,594,048	24,170,070
-	-	-	(1,090,169)	-	2,005	(1,088,164)
492,283	64,928	-	557,211	-	(5,241)	551,970
492,283	64,928	-	(532,958)	-	(3,236)	(536,194)
(200,767)	**(129,872)**	**2,042,260**	**(3,163,555)**	**(1,174,880)**	**1,590,812**	**23,633,876**

Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Total reserves KD	Treasury shares KD	Non controlling interests KD	Total equity KD
660,522	(221,303)	2,042,260	10,535,753	(1,174,880)	1,809,549	37,551,921
-	-	-	(11,839,281)	-	(192,049)	(12,031,330)
(1,353,572)	26,503	-	(1,327,069)	-	(23,452)	(1,350,521)
(1,353,572)	26,503	-	(13,166,350)	-	(215,501)	(13,381,851)
(693,050)	(194,800)	2,042,260	(2,630,597)	(1,174,880)	1,594,048	24,170,070

Notes to the Consolidated Financial Statements

At 31 December 2012

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 (collectively, the "group") are engaged in carrying out investment in various sectors inside and outside the State of Kuwait, establishing portfolio management and brokerage activities for its own account and for clients, trading of securities, issuance and managing securities internationally and locally, establishing and managing investment funds, borrowing and lending operations, conducting studies and research and providing financial advices, in addition to all the activities mentioned in the articles of association of the company. 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. (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 2012 were authorised for issue in accordance with a resolution of the board of directors on 31 January 2013. The shareholders of the company have the power to amend these consolidated financial statements at the annual general meeting.

2- 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.

2.1- BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1- BASIS OF CONSOLIDATION (continued)

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding 2012	2011
Al Awsat First Holding Company K.S.C.C.	Kuwait	Investment	**100%**	100%
Egypt & Middle East Brokerage Company	Egypt	Brokerage	**100%**	100%
Middle East Financial Brokerage Company K.S.C. ('MEFBC')	Kuwait	Brokerage	**90%**	90%
Subsidiaries under liquidation (Note 11)				
Online Soft Computer Systems Company K.S.C.C.	Kuwait	Online brokerage	**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%
Kuwait & Middle East Financial Investment Company (Held through MEFBC)	Jordan	Brokerage	**100%**	100%

2.2- CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies are consistent with those used in the previous year except for the following new and amended IFRS:

Amendments to IFRS 7 - Disclosures - Transfers of financial assets;

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the group's consolidated financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

2.3- STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following IASB Standards have been issued but are not yet effective and have not been early adopted by the group. This listing of standards and interpretations issued are those that the group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation:

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 'Financial Instruments':

The standard was issued in November 2009 and becomes effective for annual years beginning on or after 1 January 2015. IFRS 9 improves the ability of the users of the financial statement to assess the amount, timing and uncertainty of future cash flows of the entity by replacing many financial instrument classification categories, measurement and associated impairment methods. The application of IFRS 9 will result in amendments and additional disclosures relating to financial instruments and associated risks.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

2.3- STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10, which will be effective 1 January 2013, replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12, which will be effective 1 January 2013, requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

IFRS 13 Fair Value Measurement

IFRS 13, which will be effective 1 January 2013, replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IAS 19 Employee Benefits (Revised)

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

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

2.4- 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.

2.4- 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.

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.

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

Investments available for sale

Investments available for sale are those non-derivative financial assets that 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 other comprehensive income is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost, less any impairment.

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.

Loans from banks and financial institutions and certain other liabilities are classified as “financial liabilities other than at fair value through statement of income.

Fair value

The fair value of financial assets and liabilities traded in recognised financial markets is their quoted market price, based on the current quoted price. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price. For all other financial assets or liabilities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current fair value of another instrument that is substantially the same, recent arm’s length market transactions, discounted cash flow analysis, other appropriate valuation models or brokers’ quotes.

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

Recognition and de-recognition

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. All “regular way” purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the group receives or delivers the asset. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of income or in equity in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

2.4- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and de-recognition (continued)

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 or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; 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 rights 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 derecognised 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.

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, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. 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.

2.4- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are classified into two categories:

a- Fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and

b- Hedge of net investment in foreign operations

Fair value hedge

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

Hedge of net investments in foreign operations

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

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

Investment in associates

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

Under the equity method, the investment in the associate is carried in the consolidated 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. When 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 group.

Intangible assets

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

2.4- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

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

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

• Furniture and equipment	4-5	years
• Computers	4	years
• Software	7-10	years

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 of 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 equipment are recognised in the consolidated statement of income in the period of retirement or disposal.

Non-current assets held for sale

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Equipment and intangible assets once classified as held for sale are not depreciated or amortised.

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.

2.4- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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'.

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 and liabilities (both monetary and non-monetary), of foreign operations are translated into the group's functional currency 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 expense are recognised using the effective interest method taking into account the principal outstanding and the rate applicable.
- Dividend income is recognised when the right to receive payment is established.

Fiduciary assets

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

Contingencies

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

2.5- 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.

3- CASH AND BALANCES WITH BANKS

	2012 KD	2011 KD
Cash and bank balances	617,000	835,688
Short term deposits	1,250,404	1,130,398
Cash and balances with banks	**1,867,404**	1,966,086

Certain balances included in cash and balances with banks are placed with related parties (Note 21).

Short term local and foreign currency deposits bear interest rate at commercial rates, ranging from 1% to 5.25% (2011: 2% to 6%) per annum.

4- TERM DEPOSITS

Term deposits are held with commercial banks in the region, for a period of one year, at interest rates of 1.25% (2011: 2% to 4.25%) per annum payable.

5- INVESTMENTS

	2012 KD	2011 KD
Investments at fair value through statement of income		
Financial assets held for trading:		
Equity funds	**22,138**	21,889
	22,138	21,889
Investments available for sale		
Quoted equity securities	**4,668**	3,069
Unquoted equity securities	**4,659,602**	4,566,732
Managed funds	**11,181,690**	12,172,037
	15,845,960	16,741,838
Total Investments	**15,868,098**	16,763,727

Investments available for sale include unquoted equity securities carried at cost of KD 333,910 (2011: 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 663,570 (2011: KD 602,903), and realised a loss on disposal of KD 283,261 (2011: Gain of KD 7,031).

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. Carrying value of these investments at 31 December 2012 was KD 11,181,690 (2011: KD 12,172,037). The group has recorded unrealised loss of KD 91,971 (2011: unrealised loss of KD 1,388,661) in respect of the reclassified investments in fair valuation reserve within equity. Had the group not adopted the amendments to IAS 39, this unrealised loss would have been recorded in the consolidated statement of income.

Certain investments available for sale amounting to KD 11.63 million (2011: KD 11.97 million) are pledged as security against the loan (Note 12).

6- LOANS AND ADVANCES

	2012 KD	2011 KD
Loans to customers	**8,124,062**	8,471,697
Loans to staff	**456,730**	469,136
	8,580,792	8,940,833
Less: General provision	**(13,871)**	(16,852)
Less: Specific provision	**(8,264)**	(70,100)
Total loan and advances	**8,558,657**	8,853,881

Movement in the provisions relating to loans and advances are as follows:

	2012 KD	2011 KD
At 1 January	**86,952**	168,137
Write off	**(45,100)**	-
Net release of excess provision	**(19,717)**	(81,185)
Total provision	**22,135**	86,952

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

6- LOANS AND ADVANCES (continued)

Loans and advances include a loan amounting to KD 7,500,000 which is secured by a real estate property. The title of the property was transferred in the company's name to secure the repayment of the loan and accordingly is considered as collateral against the loan. The loan, which is past due, is adequately covered by the collateral. This debtor is under the Financial Stability Law and the management is pursuing various courses of action to recover the loan including through the liquidation of the property.

7- INVESTMENT IN ASSOCIATE

The company has 30% (2011: 30%) interest in Middle East Financial Investment Company, an unquoted company incorporated in Kingdom of Saudi Arabia engaged in financial services activities.

The share in assets, liabilities, operating income and result of the associate for the year ended 31 December are as follows:

	2012 KD	2011 KD
Share of associate's assets and liabilities:		
Current assets	2,286,534	4,313,496
Non-current assets	11,671,956	4,180,632
Current liabilities	(2,978,074)	(120,042)
Non-current liabilities	(1,743,074)	(20,802)
Net assets	9,237,342	8,353,284
Share of associate's income and results		
Operating income	1,967,292	1,523,539
Profit for the year	496,302	373,672

8- OTHER ASSETS

	2012 KD	2011 KD
Dues from unsettled trades	338,839	319,331
Accrued management fee	444,818	462,300
Receivable from disposal of investment	3,977,707	3,977,707
Prepaid expenses	78,314	104,609
Others	596,484	806,320
	5,436,162	5,670,267
Less: Provision for doubtful receivables and advances	(3,977,707)	(3,985,524)
Total other assets	1,458,455	1,684,743

9- INTANGIBLE ASSETS

Intangible assets represent brokerage licence acquired from Kuwait Stock Exchange for KD 12,500,000 (2011: Kuwait Stock Exchange for KD 12,500,000). This licence has indefinite useful life.

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 based extrapolating 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.

10- EQUIPMENT

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2012	1,772,174	1,862,831	2,008,009	-	5,643,014
Additions	3,535	1,439	42,098	68,290	115,362
Transfer from capital work in progress	8,525	326	23,100	(31,951)	-
Disposals	(54,093)	(19,048)		-	(73,141)
Foreign currency adjustment	(661)	(1,264)	(226)	-	(2,151)
At 31 December 2012	**1,729,480**	**1,844,284**	**2,072,981**	**36,339**	**5,683,084**
Accumulated depreciation					
At 1 January 2012	1,525,789	1,105,304	1,058,076	-	3,689,169
Depreciation	217,629	238,232	147,152	-	603,013
Disposals	(49,431)	(18,673)	-	-	(68,104)
Foreign currency adjustment	(413)	(526)	(147)	-	(1,086)
At 31 December 2012	**1,693,574**	**1,324,337**	**1,205,081**	**-**	**4,222,992**
Net book value at 31 December 2012	**35,906**	**519,947**	**867,900**	**36,339**	**1,460,092**

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2011	2,245,116	1,646,791	5,501,457	2,659,534	12,052,898
Additions	26,300	3,364	15,750	233,591	279,005
Transfer from capital work in progress	-	410,242	2,478,171	(2,888,413)	-
Disposals	(18,849)	(18,280)	(55,540)	-	(92,669)
Impairment	(319,161)	-	(5,864,044)	-	(6,183,205)
Transfer to discontinued operations	(159,519)	(177,360)	(67,234)	-	(404,113)
Foreign currency adjustment	(1,713)	(1,926)	(551)	(4,712)	(8,902)
At 31 December 2011	1,772,174	1,862,831	2,008,009	-	5,643,014
Accumulated depreciation					
At 1 January 2011	1,512,467	1,005,210	870,871	-	3,388,548
Depreciation	380,662	203,991	420,146	-	1,004,799
Disposals	(16,962)	(18,099)	-	-	(35,061)
Impairment	(239,423)	-	(176,193)	-	(415,616)
Transfer to discontinued operations	(109,101)	(84,352)	(56,424)	-	(249,877)
Foreign currency adjustment	(1,854)	(1,446)	(324)	-	(3,624)
At 31 December 2011	1,525,789	1,105,304	1,058,076	-	3,689,169
Net book value at 31 December 2011	246,385	757,527	949,933	-	1,953,845

Interest on term loan of KD Nil (2011: KD 52,984) has been capitalised as part of capital work in progress. During the prior year, the group has impaired software amounting to KD 5,687,851 (net) due to discontinuation of certain IT application systems (Note18).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

11- DISCONTINUED OPERATIONS

In accordance with a resolution passed by the board of directors on 31 July 2011, the group decided to close down operations of its subsidiaries - Middle East Financial Brokerage Company L.L.C. - U.A.E., Middle East Brokerage Company L.L.C. - Oman (MEBC Oman) and Kuwait and Middle East Financial Investment Company - Jordan and to liquidate its assets taking cognizance of the challenging and uncertain operating environment. During the year at an Extraordinary General Meeting held on 8th May 2012, the Shareholders of the subsidiary Online Soft Computer Systems Company K.S.C.C. decided to liquidate the company. The liquidation of these companies is in process. Accordingly, the non-current assets of these subsidiaries have been classified as non-current assets held for sale. The results of the discontinued operations are as follows:

	2012 KD	2011 KD
Income	38,153	121,209
Expenses	(38,153)	(831,275)
Reversal of provision/(provision for impairment loss)	141,063	(835,915)
Profit/ (loss) for the year from discontinued operations	141,063	(1,545,981)
Attributable to:		
Shareholders of the company	141,063	(1,515,819)
Non-controlling interests	-	(30,162)
	141,063	(1,545,981)
Earnings (loss) per share		
Basic and diluted earnings/ (loss) per share from discontinued operations (fils)	0.5	(5.8)

As at 31 December 2012, non-current assets held for sale of 853,123 (2011: KD 993,786) mainly includes an investment property amounting to KD 793,703 (2011: KD 787,357).

The net cash flows incurred by the disposal group:

	2012 KD	2011 KD
Operating	(1,782,051)	(413,017)
Investing	133,106	6,237
Net cash outflow	(1,648,945)	(406,780)

12- LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

	2012 KD	2011 KD
Secured bank loans	24,138,765	24,089,623

Secured bank loans represent loans from the parent company, secured by mortgaging assets of the company comprising investment in subsidiaries (Note 2.2), certain investments available for sale (Note 5), loans and advances (Note 6) and investment in an associate (Note 7), with the parent company and ultimate parent company. The loans were carried at effective interest rate of 3.51% (2011: 3.79%)

Hedge of net investments in foreign operations

Included in loans from banks and financial institutions are loans of KD 4,378,765 (2011: KD 4,329,623) denominated in foreign currency USD 15,551,247 (2011: USD 15,551,247), which have been designated as a hedge of the net investments in certain foreign operations.

12- LOANS FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

Hedge of net investments in foreign operations (continued)

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 certain foreign operations. Foreign exchange loss arising on translation of the hedging instruments (loans) amounting KD 48,908 (2011: gain of KD 48,943) were taken directly to other comprehensive income. There is no hedge ineffectiveness at 31 December 2012.

13- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2012 KD	2011 KD
Staff payables	1,636,826	1,600,672
Loan interest payable	272,357	686,328
Brokerage payables	71,759	78,592
Others	2,099,588	2,908,428
Total accounts payable and other liabilities	4,080,530	5,274,020

14- SHARE CAPITAL

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

	2012 KD	2011 KD
Authorised:265,454,991 shares of 100 fils each	26,545,499	26,545,499
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 (2011: 15,837,638 shares) on account of share option plan for employees.

The annual general assembly meeting of the shareholders held on 22 May 2012 approved the issuance of 2,790,000 shares on account of new share option plan (Note 20).

15- RESERVES

Share premium and treasury shares reserve

The share premium represents premiums collected upon issuing new shares to employees under the 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.

Notes to the Consolidated Financial Statements (continued)

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15- RESERVES (continued)

General reserve (continued)

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

	2012 KD	2011 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)	102,317	131,175

17- INTEREST INCOME

	2012 KD	2011 KD
Term deposits and bank balances	19,291	11,673
Loans and advances	69,427	91,995
Total interest income	88,718	103,668

18- PROVISIONS AND IMPAIRMENT LOSSES

	2012 KD	2011 KD
Impairment loss on investments available for sale	-	907,738
Reversal of provision of impairment on loans and advances, net (Note 6)	(19,717)	(81,185)
Impairment loss on equipment (Note 10)	-	5,767,589
Impairment/provision on other assets	78,944	1,066,594
Total provisions and impairment losses	59,227	7,660,736

19- BASIC AND DILUTED LOSS PER SHARE

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

	2012	2011
Loss for the year attributable to the shareholders of the company (KD)	(1,090,169)	(11,839,281)
Weighted average number of shares outstanding during the year	261,191,491	261,191,491
Basic and diluted loss per share (fils)	(4.2)	(45.3)

19- BASIC AND DILUTED LOSS PER SHARE (continued)

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

	2012	2011
Weighted average number of issued and paid up shares	**263,814,991**	263,814,991
Less: Weighted average number of treasury shares	**(2,623,500)**	(2,623,500)
Weighted average number of shares	**261,191,491**	261,191,491

Basic and diluted loss per share from continuing operations

	2012	2011
Loss for the year from continuing operationsattributable to the shareholders of the company (KD)	**(1,231,232)**	(10,323,462)
Weighted average number of shares outstanding during the year	**261,191,491**	261,191,491
Basic and diluted loss per share from continuing operations (fils)	**(4.7)**	(39.5)

20- EMPLOYEE SHARE OPTION PLAN

2011 Plan

In accordance with the approval granted by the annual general assembly meeting of the shareholders held on 23 May 2011, the Board of Directors of the company were authorised to grant up to 1,640,000 shares as stock options to the employees (2011 Plan).

The annual general assembly meeting of the shareholders held on 22 May 2012 approved the allocation of further 2,790,000 shares on account of this plan through transfer of 1,901,310 shares which were options outstanding on expiry of 2006 Plan and converted for future stock options and further issue of 888,690 shares.

The options vest as follows:

Vesting Criteria	Service Criteria	Performance	Option vesting plan
Batch 1	Staff receiving option with service of 5 years and above	Minimum performance rating of 3 during the vesting period	40% vesting on 31 December 2011 40% vesting on 31 December 2012 20% vesting on 31 December 2013
Batch 2	All other staff	Minimum performance rating of 3 during the vesting period	40% vesting on 31 December 2012 40% vesting on 31 December 2013 20% vesting on 31 December 2014

The option price was fixed at 100 fils per share and the employees can exercise the options till 30 April 2015.

As at 31 December 2012, the options were out of the money and none of the options were exercised as of that date.

Notes to the Consolidated Financial Statements (continued)

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21- 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:

Related party balances

	2012 KD	2011 KD
Cash placed with the parent company (Note 3)	593,725	727,873
Receivable from the parent company	36,452	43,979
Receivable from other related parties	118,148	175,003
Loans and advances to key management personnel	342,245	342,245
Loans taken from the parent company (Note 12)	24,138,765	24,089,623
Guarantees taken from the parent company	1,250	1,767,211
Investments and funds managed in a fiduciary capacity	27,952,725	29,267,678

Related party transactions

	2012 KD	2011 KD
Management fees earned	49,000	37,125
Interest income	23,808	24,693
Interest expense on loans taken from the parent company	(852,967)	(974,929)

	2012 KD	2011 KD
Key management compensation:		
Salaries and other short term benefits	437,859	526,370

22- COMMITMENTS AND CONTINGENT LIABILITIES

	2012 KD	2011 KD
Commitments		
Uncalled capital contributions relating to investments available for sale	123,524	213,966
	123,524	213,966
Contingent liabilities		
Guarantees	251,250	1,978,184

Guarantees issued by the group noted above exclude a guarantee of KD 42.94 million (2011: KD 42.46 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

23- 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 583 million (2011: KD 618 million). Management fee of KD 2,052,619 (2011: KD 2,165,719) has been recognised by the company for management of fiduciary assets.

24- 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, non-current assets held for sale and investment in associates is based on management's estimate of liquidation of these financial assets.

The maturity profile of the assets and liabilities at 31 December is as follows:

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Assets										
Cash and balances with banks	**1,867,404**	1,966,086	**-**	-	**-**	-	**-**	-	**1,867,404**	1,966,086
Term deposits	**-**	-	**-**	-	**50,000**	464,361	**-**	-	**50,000**	464,361
Investments	**6,417,475**	7,259,704	**22,138**	21,889	**1,496,531**	1,496,305	**7,931,954**	7,985,829	**15,868,098**	16,763,727
Loans and advances	**-**	-	**-**	49,500	**8,558,657**	8,804,381		-	**8,558,657**	8,853,881
Investment in an associate	**-**	-	**-**	-	**-**	-	**9,237,342**	8,353,284	**9,237,342**	8,353,284
Other assets	**497,366**	563,789	**318,985**	263,298	**642,104**	857,656	**-**	-	**1,458,455**	1,684,743
Intangible assets	**-**	-	**-**	-	**-**	-	**12,500,000**	12,500,000	**12,500,000**	12,500,000
Equipment	**-**	-	**-**	-	**-**	12,675	**1,460,092**	1,941,170	**1,460,092**	1,953,845
Non-current assets held for sale	**-**	-	**853,123**	993,786	**-**	-	**-**	-	**853,123**	993,786
	8,782,245	9,789,579	**1,194,246**	1,328,473	**10,747,292**	11,635,378	**31,129,388**	30,780,283	**51,853,171**	53,533,713
Liabilities										
Loans from banks and financial institutions	**-**	-	**-**	-	**-**	-	**24,138,765**	24,089,623	**24,138,765**	24,089,623
Accounts payable and other liabilities	**307,581**	89,496	**202,059**	509,217	**414,514**	980,479	**3,156,376**	3,694,828	**4,080,530**	5,274,020
	307,581	89,496	**202,059**	509,217	**414,514**	980,479	**27,295,141**	27,784,451	**28,219,295**	29,363,643
Net liquidity gap	**8,474,664**	9,700,083	**992,187**	819,256	**10,332,778**	10,654,899	**3,834,247**	2,995,832	**23,633,876**	24,170,070

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

25- 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 brokerage services across Middle East and North Africa (MENA) and United States of America (USA) based stock exchanges.
- Credit operations: engaged in providing margin loans to the clients trading in Kuwait Stock Exchange and commercial loans to the clients.
- Investment& treasury: engaged in money market placements, real estate activities and proprietary trading in equity stocks and funds across Gulf Cooperation Countries (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 is as follows:

	Asset management KD	**Brokerage & online trading KD**	**Credit operations Kd**	**Investment & treasury KD**	**Unallocated KD**	**Total KD**
2012						
Segment revenue	**2,053,453**	**1,467,185**	**88,718**	**395,916**	**-**	**4,005,272**
Segment expenses	**(1,164,464)**	**(1,679,946)**	**(13,680)**	**(2,317,182)**	**-**	**(5,175,272)**
Reversal/provisions and impairment losses	**-**	**-**	**19,718**	**(78,945)**	**-**	**(59,227)**
Segment results - continuing operations	**888,989**	**(212,761)**	**94,756**	**(2,000,211)**	**-**	**(1,229,227)**
Segment assets	**848,403**	**13,722,966**	**8,795,998**	**28,485,804**	**-**	**51,853,171**
Segment liabilities	**(382,085)**	**(277,742)**	**(7,500,000)**	**(18,475,039)**	**(1,584,429)**	**(28,219,295)**
	466,318	**13,445,224**	**1,295,998**	**10,010,765**	**(1,584,429)**	**23,633,876**

	Asset management KD	Brokerage & online trading KD	Credit operations Kd	Investment & treasury KD	Unallocated KD	Total KD
2011						
Segment revenue	2,165,719	1,210,682	91,995	870,035	-	4,338,431
Segment expenses	(1,817,662)	(1,722,754)	(21,690)	(3,097,036)	(503,902)	(7,163,044)
Reversal/provisions and impairment losses	-	-	81,185	(1,974,332)	(5,767,589)	(7,660,736)
Segment results - continuing operations	348,057	(512,072)	151,490	(4,201,333)	(6,271,491)	(10,485,349)
Segment assets	1,001,353	13,735,056	9,094,165	29,703,139	-	53,533,713
Segment liabilities	(321,607)	(232,582)	(7,500,000)	(19,099,165)	(2,210,289)	(29,363,643)
	679,746	13,502,474	1,594,165	10,603,974	(2,210,289)	24,170,070

26- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset or liability 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 approximated their respective net book values at the reporting date, except for certain unquoted equity instruments classified as investments available for sale (Note 5).

Financial instruments measured at amortised 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 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 2012, 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 KD	Level: 2 Kd	Total KD
2012			
Investments at fair value through statement of income			
Equity funds	22,138	-	**22,138**
Investments available for sale			
Equity securities	4,668	4,325,692	**4,330,360**
Managed funds	6,412,808	4,768,882	**11,181,690**
	6,417,476	9,094,574	**15,512,050**

	Level: 1 KD	Level: 2 KD	Total KD
2011			
Investments at fair value through statement of income			
Equity funds	21,889	-	21,889
Investments available for sale			
Equity securities	3,069	4,296,550	4,299,619
Managed funds	7,256,635	4,915,402	12,172,037
	7,259,704	9,211,952	16,471,656

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

27- 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.

27.1- 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.

	2012 KD	2011 KD
Bank balances	**1,859,795**	1,958,086
Term deposits	**50,000**	464,361
Loans and advances	**8,558,657**	8,853,881
Other assets	**1,380,141**	1,580,134
Gross maximum credit risk exposure	**11,848,593**	12,856,462

The maximum credit exposure to any single client or counterparty was KD 7,500,000 (2011: KD 7,500,000) before taking account of collateral or other credit enhancements.

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.

27- RISK MANAGEMENT (continued)

27.1- CREDIT RISK (continued)

Collateral and other credit enhancements (continued

The fair value of collateral that the group holds relating to loans and advances and other assets amounts to KD 13,037,153 (2011: KD 12,521,910).

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	
	2012	2011	**2012**	2011
	KD	KD	**KD**	KD
Geographic region:				
Kuwait	**10,295,310**	10,564,148	**251,250**	1,767,211
Other Middle East*	**1,491,102**	2,189,842	**-**	210,973
Rest of the World	**62,181**	102,472	**123,524**	213,966
	11,848,593	12,856,462	**374,774**	2,192,150

*Other Middle East countries include GCC countries, Jordan and Egypt.

	Assets		Contingent liabilities and commitments	
	2012	2011	**2012**	2011
	KD	KD	**KD**	KD
Industry sector:				
Banks and financial institutions	**10,125,615**	10,736,930	**374,774**	2,192,150
Other	**1,722,978**	2,119,532	**-**	-
	11,848,593	12,856,462	**374,774**	2,192,150

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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

27- RISK MANAGEMENT (continued)

27.1- CREDIT RISK (continued)

Analysis of past due but not impaired financial assets

As at 31 December 2012, loans and advances exposed to credit risk of KD 7,713,984 (2011: KD 7,713,984) were past due but not impaired.

Impaired financial assets

As at 31 December 2012, other assets, and loans and advances exposed to credit risk of KD 3,985,871 (2011: KD 4,063,288) were impaired against which the group carries a provision of KD 3,985,871(2011: KD 4,055,624).

27.2- 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:

Financial liabilities	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Loans from banks and financial institutions	**-**	4,615	**-**	34,546	**529,982**	532,716	**24,691,378**	25,490,585	**25,221,360**	26,062,462
Accounts payable and other liabilities	**307,581**	89,496	**202,059**	509,217	**414,514**	980,479	**3,156,376**	3,694,828	**4,080,530**	5,274,020
Total undiscounted financial liabilities	**307,581**	94,111	**202,059**	543,763	**944,496**	1,513,195	**27,847,754**	29,185,413	**29,301,890**	31,336,482
Contingent liabilities and commitments	**750**	-	**45,000**	-	**205,500**	1,978,184	**123,524**	213,966	**374,774**	2,192,150

Refer to Note 24 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above; which exclude future interest payments.

27- RISK MANAGEMENT (continued)

27.3- MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument 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.

27.3.1- Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows 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 balances with banks, term deposits, loans and advances, and loans from banks and financial institutions.

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

Currency	**Increase of 25 basis points**	
	Profit/(loss)	
	2012	2011
	KD	KD
Kuwaiti Dinar	**(29,321)**	(28,003)
US Dollar	**(9,574)**	(9,258)

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

27.3.2- 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 group. 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 group'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:

		2012		2011	
Market indices	**Increase in equity price %**	**Effect on loss KD**	**Effect on equity KD**	Effect on loss KD	Effect on equity KD
Kuwait Index	10%	**-**	**504,780**	-	541,968
Other GCC Indices	10%	**-**	**79,652**	-	117,406

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2012

27- RISK MANAGEMENT (continued)

27.3- MARKET RISK (continued)

27.3.3- Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows 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.

Net assets denominated in foreign currencies

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

	2012	2011
	KD	KD
US Dollar	**(2,408,290)**	(1,907,255)
GCC currencies	**12,275,970**	12,775,289
Other currencies	**286,404**	382,383
	10,154,084	11,250,417

The effect on loss (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%	
	Profit/(loss)	
	2012	2011
	KD	KD
US Dollar	**201,667**	183,070
GCC currencies	**(45,077)**	(131,748)
Other currencies	**(7,125)**	(9,878)

27.3.4- 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.

28- 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 2012.

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 balances with bank and term deposits. Total capital represents equity attributable to the shareholders of the company.