



WE HAVE CREATED A FINANCIAL LEGACY

شركة الكويت والشرق الأوسط للاستثمار المالي ش.م.ك.م.
Kuwait and Middle East Financial Investment Company K.S.C.C.

ANNUAL
REPORT
2008





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Planted the right way ...

His Highness
Sheikh Sabah Al Ahmad
Al Jaber Al Sabah
The Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al Ahmad
Al Jaber Al Sabah
Crown Prince of the State of Kuwait



Looked after by the people who care ...

BOARD OF DIRECTORS

	1 Hamed Hamad Al Sanee Chairman & Managing Director	
2 Nasser Barrak Al-Mutair Vice Chairman	3 Hamad A. Al-Marzouk Director	4 Hasan Yacoub Behbahani Director
5 Adel Al Labban Director	6 Michael Collis Director	7 Sanjeev Baijal Director

CHAIRMAN'S MESSAGE

Dear Shareholders,

Since early 2003, surging oil prices boosted revenues of Kuwait and the other GCC countries hence constituting a strong basis for a new stronger economic era. GCC GDPs witnessed unprecedented growth rates as more economic sectors started to benefit from increasing oil revenues. The financial sector led a growth path which ended up reflecting positively on the real estate sector. Increasing liquidity balances constituted a strong backbone for all kinds of new projects while banks enjoyed the ability to lend more due to positive economic conditions. By that time, boosted activity in GCC economies spread to neighboring countries which started to witness increasing growth rates as a result of mega projects in all sectors, specifically in the financial & the real estate sectors.

Corporate incomes grew in line with economic activity and publicly listed companies in GCC stock exchanges witnessed similar increases in their capitalization. Stock prices grew by folds between 2005 and 2006. Alarming opinions on approaching inflation threats were raised and it was not too long before countries started thinking of essential measures to fight increasing inflation which had reached record levels.

Despite the fluctuation witnessed in GCC stock markets during the past two years marking the beginning of a different phase, the picture continued to be promising and the pipeline of projects remained crowded. However, the situation changed dramatically by the end of 2008, a year that will be remembered as the time when all the quantitative models broke down and the long march to market deregulation was reversed. A sequence of events occurred building from the collapse of the real estate bubble

precipitated by the sub-prime mortgage crisis, accelerating global credit crunch, investor flight to safety, rapid deflation of oil and commodity prices, inability of governments to anticipate actions, followed by massive intervention into equity markets, and all leading to a crescendo of the worst equity market crashes since the Great Depression with enduring impact on the world financial system. In this crisis, the downside of globalization was made apparent as all markets moved in lockstep. Crashes in global stock markets eliminated years of gains, and giant names in the financial sector literally vanished.

Closer to home, neither Kuwait nor any other country in the broader GCC escaped unscathed as the region's stock markets suffered fourth quarter losses ranging between 26% and more than 60%. Despite strong underlying economic fundamentals and record current account surpluses, each member of the GCC was exposed through its own banking and financial institutions leading to significant full year losses in local equity markets from 28% for Qatar to 72% for Dubai. The previous growth from the first half was erased by the global financial crisis by the end of the second half. Despite proactive efforts by GCC governments to stimulate the economy and boost investor confidence, the overall trading volume and value declined during the year (YoY drop of 6% and 15% respectively) with regional market capitalization experiencing a decline of 47% YoY.

By the end of 2008, the weighted average drop in GCC indices stood at 50% based on market capitalization. Although losses in five out of seven exchanges were below this average, the sharp 72% fall in the Dubai Financial Market as well as the 57% drop in the heavyweight Saudi Stock Exchange both loaded the average weighted

Focused on team work ...

CHAIRMAN'S MESSAGE (continued)

losses of markets. While all countries currently struggle to minimize the crisis effect and take measures to boost their respective economies; putting things back on track seems to be more challenging than expected.

The long run growth rate in real output has witnessed weaker estimates subsequent to global economic slowdown in most of GCC economies. Prior to global demand slack, GCC economies benefited from strong oil demand and its buoyant effect on other sectors (mainly Islamic finance, real estate, and telecommunication) hence stimulating non-oil GDP. Simultaneously, countries like UAE, Bahrain and Saudi Arabia tried to ease legal, business and trade frameworks to attract foreign direct inflows and enhance the non-oil sector competitiveness with globally acquired standards. Nevertheless, GCC countries with high reliance on oil revenues faced lower exposure compared to other countries in terms of post crisis financial measurements. Conversely, expansion prospects in the non-oil sector were notably affected together with a decrease in non-oil sector work force employment. This will extend the natural resources independence outlook of GCC economies for a longer period. The average foreseen growth rates (2009-2013) in Saudi Arabia, UAE, Oman and Bahrain decreased after the crisis while Qatar and Kuwait showed slightly higher rates compared to the period before crisis. Generally, the GCC region average forecasted growth rates declined by 1.1% (from 6.3% to 5.2%) after the financial turmoil.

At KMEFIC, we were far from being immune to the consequences of this unprecedented global markets meltdown that exceeded all limits or expectations; however the extent of the impact of these consequences was manageable and containable as the damage was far less than

that suffered by other investment companies or financial institutions. The reason behind that is the nature of our traditionally conservative standpoint, being unadventurously leveraged at such market conditions. Furthermore, we continue to reduce our leverage constantly.

Company's performance

In light of a disappointing year for the Kuwaiti capital markets, KMEFIC's performance has been relatively satisfactory. In 2008, the company realized a total income of KD 17.82 million lower by 31% compared to KD 25.80 million in the previous year. During the year, the main contributors to the total income were the management fees (including performance fees) at KD 6.72 million (lower by 23% compared to KD 8.77 million in the previous year) which constituted approximately 38% of the total income. This is followed by the commission income at KD 6.37 million (lower by 29% compared to KD 8.99 million in the previous year) representing approximately 36% of the total income. Gains on long term investments, represented in the sale of a few Strategic investments at KD 6.09 million (higher by 684% compared to KDO.77 million in 2007) constituted 34% of the total income. Interest income stood at KD 1.78 million (higher by 4.4% compared to KD 1.70 million in the previous year) constituting 10% of the total income.

On the other hand, KMEFIC's investments at fair value through profit and loss account produced a total loss of KD 4.39 million (as compared to a total profit of KD 4.3 million in the previous year) erasing 20% of the total income prior to these losses. These investments are inclusive of the company's proprietary investments in our own funds as well as other local, regional, and international mutual funds and hedge funds. The

Building success ...

CHAIRMAN'S MESSAGE (continued)

decline in management fees was mainly due to the drop in assets under management during 2008 by KD 711 million or 42% to reach KD 973 million (USD 3,526 million) compared to KD 1,684 million (USD 6,133 million) in 2007.

As the total income dropped by 31%, total expenses rose by 17% during the year to KD 13.4 million mainly on account of higher staff expenses due to the increase in headcount as well as salaries in the first three quarters. Other operating expenses actually dropped by 10% during the year. These expenses need to be viewed in line with our completed expansions and the related benefits that will ensue in the coming years. As of the fourth quarter we have started adjusting our cost structure in order to deal with the current financial crisis; in that respect we have taken some major cost cutting measures, the effects of which will be reflected in the near future. A combination of the above factors led the company to achieve a net profit of KD 3.93 million, lower by 70% compared to KD 13.26 million in 2007. This translated into diluted earnings per share of 16.58 Fils in 2008 compared to 56.63 Fils in 2007.

Asset Management

During this unprecedented crisis, KMEFIC's conservative approach to asset management was proven. As the storm clouds began to appear over the summer, KMEFIC took proactive steps for all discretionary accounts to include a broad strategic reallocation to the most conservative instruments possible beginning October 2008 which significantly minimized losses versus the market. This included a comprehensive drawdown of International Equity and Hedge Fund exposure and elimination of non-strategic holdings. For KMEFIC equity portfolios, cash positions were increased to the maximum allowable percentages

resulting in exceptional relative performance. All three Equity Funds and the Composite Portfolio of our Kuwait Separately Managed Accounts outperformed their respective benchmarks. In the Financial Derivatives segment, the futures and forwards portfolio also outperformed the KSE indices. Overall KMEFIC closed the year with no significant asset management or derivative linked exposures.

The recent run up in GCC equity markets was marked by investor overconfidence and poor risk management which has come to an end. Successful management in this new financial era will be characterized by a return to the prudent fundamentals of asset based investing. To address this trend and meet the needs of the GCC High Net Worth and Institutional client, KMEFIC will be offering its conservative investment philosophy in the form of a more balanced approach for Wealth and Asset Management Strategies. These Strategies will employ Shari'ah, conventional, public and private investment opportunities across several asset classes drawing on KMEFIC's advisory services, GCC market making capability, leading buy-side market research and a sophisticated portfolio management technology for true multi-asset, multi-currency, multi-manager execution. Our asset management platform will significantly enhance the GCC client experience and confidence through sophisticated client reporting and online account access. We are excited about these services and look forward to communicating developments.

Brokerage

In 2008, and for the fourth consecutive year, the commission income remained a main contributor to KMEFIC's total income, driven mainly by online trading (alawsat.com) and the

Conservative approach ...

CHAIRMAN'S MESSAGE (continued)

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

On the backdrop of the liquidity crunch and deteriorating investor sentiment on global as well as regional and local levels, the fourth quarter of 2008 witnessed a sharp drop in trading activity on the Kuwait Stock Exchange measured by the three key parameters: number of trades, volume and value traded.

Online Services

Online trading has been consistently generating substantial revenues with our flagship product alawsat.com. The year 2008 was yet another successful year for the division both in terms of profitability as well as business development. Having successfully launched the electronic routing to the Doha and Muscat markets and expanded the service that originally covered the markets of Dubai, Abu Dhabi, and Kuwait, in addition to the U.S markets, 2008 witnessed the establishing of connectivity to the Egyptian stock markets.

Moreover, KMEFIC offers DMA (Direct Market Access) to major Middle East capital markets through its FIX HUB which was implemented back in 2005, to become and so far remain the only FIX gateway for the Kuwait Stock Exchange. Banks and brokers having their own execution platforms can utilize KMEFIC's existing

infrastructure to connect to MENA region major capital markets in a single point of access. Additionally, KMEFIC is connected to several international order routing networks such as REUTERS (ROR), and TNS. Currently, KMEFIC is one of the few companies certified to accept orders from those networks in the region.

KMEFIC has developed an electronic stock-trading platform - "KMEFIC™ Online Trading" that will replace alawsat.com to facilitate internet access to major regional stock markets. Through this service, retail and institutional clients can obtain access to their preferred stock markets from any location in the world. The service is unique as it allows investors to trade equities listed on multiple regional and international markets with various unique features.

Going forward, we plan to establish connectivity to each of the Saudi, Jordanian, and Bahraini stock markets in 2009. Furthermore, we aim to optimize the productivity of our information technology resources across all KMEFIC's offices.

Corporate Finance

KMEFIC's full-fledged Corporate Finance division that was established back in 2007 had started to offer its services to clients in 2008. During the year under review, the Corporate Finance team has successfully completed the secured mandates and adequately contributed to the income stream of the company. It has also received new mandates from corporate entities which are in various stages of execution.

Going forward into 2009, the potential and prospects for the Corporate Finance & Advisory Services business is vast given the current economic environment. In that respect, KMEFIC

Planning ahead ...

CHAIRMAN'S MESSAGE (continued)

is geared to focus its attention on this segment as one of the core thrust areas of the business. The Corporate Finance division is expected to contribute substantially to KMEFIC's fee based revenue in the years to come.

Research

In line with our continuous expansion of the brokerage operations and enhancing value added client services, the research team was further strengthened during the year to focus on Equity Research, Stock Market Research, and Macroeconomic Analysis of the regional countries and their capital markets in order to generate superior investment ideas and strategies on the long run.

During 2008 and through the year 2009, the research function has been going through challenging changes. Building a center for knowledge that goes beyond the simple management of information remains the core of our vision. In light of the above, we plan to bring breadth and depth to the research function, and will continue our mission to create adequate tools for rational investors within the MENA region.

Closing thoughts and outlook

It is hard to imagine a more uncertain time for the financial markets. While the subprime mortgage meltdown initiated more than a year ago in the United States plunged the world in what will probably be the worst economic era for years, emerging economies, GCC countries and particularly Kuwait to a certain extent, were not exempt from this financial turmoil during 2008. Nonetheless, there are still grounds for optimism. Indeed, even if Kuwait's economy is expected to slow down bearing the effects of the global financial crisis, the GDP should yet sustain

a positive growth rate in 2009, higher than the world, emerging and developing economies and developed economies' averages. The latest GDP forecasts from the International Monetary Fund show that Kuwait's economy is expected to grow and reach a growth rate level of 6% in 2013.

In general, we will approach 2009 with continued caution as we are reshaping our business model to best suit the current economic and financial situation, while keeping an eye out for the possible opportunities that might present themselves. Furthermore, we continue to receive the unremitting support of our parent companies, the Bank of Kuwait & the Middle East and the Ahli United Bank.

On a final note, my appreciation goes to KMEFIC's management and staff to whom I would like to reiterate my sincere gratitude for their unrelenting commitment and devotion that will enable the company to overcome this financial crisis and go forward towards reaching its goals and objectives while maintaining its status as one of the leading investment and asset management companies in Kuwait and the region.



Hamed Hamad Al-Sanee
Chairman & Managing Director

This is how we created a legacy.

Kuwait And Middle East Financial Investment Company K.S.C. (Closed)
 Consolidated Financial Statements 31 December 2008

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C. (CLOSED)

Ernst & Young

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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 2008 and the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT
AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C. (CLOSED)**
[continued]

Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on other legal and regulatory matters

Furthermore, in our opinion, proper books of account have been kept by the company and the consolidated financial statements, along with the contents of the company's Board of Directors report relating to these consolidated financial statements are in accordance therewith. We further report that we obtained all the information

PricewaterhouseCoopers

and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended and by the company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no material violations of the Commercial Companies Law of 1960, as amended nor of the articles of association have occurred during the year ended 31 December 2008 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 2008.



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



Bader A. Al Wazzan
Licence No. 62 .A
Pricewaterhousecoopers

31 March 2009
Kuwait

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)
CONSOLIDATED BALANCE SHEET
As of 31 December 2008

	Notes	31 December 2008 KD	31 December 2007 KD
ASSETS			
Cash and cash equivalents	3	4,727,573	8,401,642
Term deposits	4	2,343,615	-
Investments at fair value through income statement	5	5,241,843	30,123,843
Investments available for sale	6	29,886,064	29,603,698
Loans and advances	7	15,485,839	13,718,631
Investment in an associate	8	8,048,349	8,774,244
Other assets	9	9,145,370	5,597,643
Intangible assets	10	12,691,532	12,691,532
Equipment	11	7,536,351	3,957,276
TOTAL ASSETS		95,106,536	112,868,509
LIABILITIES AND EQUITY			
LIABILITIES			
Loans from banks and financial institutions	12	36,196,800	43,249,967
Accounts payable and other liabilities	13	3,703,239	5,007,644
TOTAL LIABILITIES		39,900,039	48,257,611
EQUITY			
Share capital	14	23,936,755	21,540,163
Treasury shares		(1,139,220)	-
Share premium		1,157,687	746,868
Statutory reserve		6,707,958	6,286,018
General reserve		6,379,860	5,853,912
Retained earnings		13,808,268	19,448,231
Fair valuation reserve		(812,248)	5,871,321
Foreign currency translation reserve		(270,141)	(351,985)
Treasury shares reserve		2,042,260	2,035,686
Share options reserve		753,743	753,743
Equity attributable to shareholders of the company		52,564,922	62,183,957
Minority interest		2,641,575	2,426,941
TOTAL EQUITY		55,206,497	64,610,898
TOTAL LIABILITIES AND EQUITY		95,106,536	112,868,509



Hamed Hamad Al Sanee
Chairman & Managing Director



Nasser Barak Al Mutair
Vice Chairman

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2008

	Notes	31 December 2008 KD	31 December 2007 KD
Income			
Management fees	20	6,506,408	6,174,580
Performance fees	20	212,671	2,595,353
Interest income	15	1,776,322	1,701,981
Commission income		6,369,821	8,996,502
Placement fees		891,638	30,246
Unrealised (loss)/gain on investments at fair value through income statement		(1,769,897)	3,920,491
Realised (loss)/gain on sale of investment at fair value through income statement		(2,617,716)	379,770
Gains on sale of investments available for sale	6	6,086,962	776,791
Dividend income		921,117	527,683
Share of results from an associate	8	(774,783)	-
Foreign exchange gains		191,211	643,283
Other income		24,863	45,690
Total income		17,818,617	25,792,370
Expenses			
Staff expenses		5,920,375	4,806,109
Stock option expenses		-	156,780
Other operating expenses		3,217,416	3,591,831
Depreciation		759,393	361,495
Interest expense	15	2,119,794	2,399,229
Provision for impairment of loans and advances and other assets		(86,546)	26,826
Impairment loss on investments available for sale		1,465,131	140,594
Total expenses		13,395,563	11,482,864
Profit before contribution to Kuwait Foundation for Advancement of Science (KFAS), National Labour Support Tax (NLST), Directors' Fees and Zakat		4,423,054	14,309,506
Contribution to KFAS		(38,034)	(128,786)
NLST		(93,850)	(341,952)
Directors' fees		(114,000)	(98,000)
Zakat		(39,577)	(8,359)
Profit for the year		4,137,593	13,732,409
Attributable to:			
Shareholders of the company		3,933,942	13,262,320
Minority interest		203,651	470,089
		4,137,593	13,732,409
Basic earnings per share (Fils)	16	16.58	56.87
Diluted earnings per share (Fils)	16	16.58	56.63

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to the equity shareholders of the company											
	Share capital KD	Treasury shares KD	Share premium KD	Statutory reserve KD	General reserve KD	Retained earnings KD	Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Share options reserve KD	Minority interest KD	Total KD
Balance at 1 January 2008	21,540,163	-	746,868	6,286,018	5,853,912	19,448,231	5,871,321	(351,985)	2,035,686	753,743	2,426,941	64,610,898
Changes in fair value of investments available for sale	-	-	-	-	-	-	(3,405,123)	-	-	-	-	(3,405,123)
Transferred to consolidated income statement on sale of investments available for sale	-	-	-	-	-	-	(3,179,528)	-	-	-	-	(3,179,528)
Exchange differences on translating foreign operations	-	-	-	-	-	-	(98,918)	81,844	-	-	-	(17,074)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	(6,683,569)	81,844	-	-	-	(6,601,725)
Profit for the year	-	-	-	-	-	3,933,942	-	-	-	-	203,651	4,137,593
Total income and expenses for the year	-	-	-	-	-	3,933,942	(6,683,569)	81,844	-	-	203,651	(2,464,132)
Dividends (Note 14)	-	-	-	-	-	(6,438,965)	-	-	-	-	-	(6,438,965)
Issue of bonus shares (Note 14)	2,176,069	-	-	-	-	(2,176,069)	-	-	-	-	-	-
Transfer to reserves (Note 14)	-	-	-	421,940	525,948	(947,888)	-	-	-	-	-	-
Equity share options issued to employees	-	-	410,819	-	-	-	-	-	-	-	-	631,342
Purchase of treasury shares	-	(1,582,168)	-	-	-	-	-	-	-	-	-	(1,582,168)
Sale of treasury shares	-	442,948	-	-	-	-	-	6,574	-	-	-	449,522
Other movement in equity of subsidiary	-	-	-	-	-	(10,983)	-	-	-	-	10,983	-
Balance at 31 December 2008	23,936,755	(1,139,220)	1,157,687	6,707,958	6,379,860	13,808,268	(812,248)	(270,141)	2,042,260	753,743	2,641,575	55,206,497

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2008

Attributable to the equity shareholders of the company

	Share capital KD	Treasury shares KD	Share premium KD	Statutory reserve KD	General reserve KD	Retained earnings KD	Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Share options reserve KD	Minority interest KD	Total KD
Balance at 1 January 2007	17,651,898	(5,084,070)	394,921	4,902,076	4,469,970	14,213,065	1,915,498	(3,180)	1,735,136	596,963	1,946,848	42,739,125
Changes in fair value of investments available for sale	-	-	-	-	-	-	3,951,484	-	-	-	-	3,951,484
Transferred to consolidated income statement on sale of investments available for sale	-	-	-	-	-	-	(5,661)	-	-	-	-	(5,661)
Prior year adjustment	-	-	-	-	-	19,435	-	-	-	-	-	19,435
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	(348,805)	-	-	-	(348,805)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	19,435	3,955,823	(348,805)	-	-	-	3,626,453
Profit for the year	-	-	-	-	-	13,262,320	-	-	-	-	470,089	13,732,409
Total income and expenses for the year	-	-	-	-	-	13,281,755	3,955,823	(348,805)	-	-	470,089	17,358,862
Dividends (Note 14)	-	-	-	-	-	(1,678,674)	-	-	-	-	-	(1,678,674)
Issue of bonus shares (Note 14)	3,590,027	-	-	-	-	(3,590,027)	-	-	-	-	-	-
Transfer to reserves (Note 14)	-	-	-	1,383,942	1,383,942	(2,767,884)	-	-	-	-	-	-
Equity share options issued to employees	298,238	-	351,947	-	-	-	-	-	-	156,780	-	806,965
Purchase of treasury shares	-	(514,179)	-	-	-	-	-	-	-	-	-	(514,179)
Sale of treasury shares	-	5,598,249	-	-	-	-	-	-	300,550	-	-	5,898,799
Other movement in equity of subsidiary	-	-	-	-	-	(10,004)	-	-	-	-	10,004	-
Balance at 31 December 2007	21,540,163	-	746,868	6,286,018	5,853,912	19,448,231	5,871,321	(351,985)	2,035,686	753,743	2,426,941	64,610,898

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

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)
CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2008

	Notes	31 December 2008 KD	31 December 2007 KD
Cash flows from the operating activities			
Profit for the year		4,137,593	13,732,409
Adjustments:			
Interest income		(1,776,322)	(1,701,981)
Unrealised losses/(gains) on investments at fair value through income statement		1,769,897	(3,920,491)
Gains on sale of investments available for sale		(6,086,962)	(776,791)
Dividend income		(921,117)	(527,683)
Share of results from an associate		774,783	-
Stock option expenses		-	156,780
Depreciation		759,393	361,495
Interest expense		2,119,794	2,399,229
Provision for impairment of loans and advances and other assets		(86,546)	26,826
Impairment loss on investments available for sale		1,465,131	140,594
Operating income before changes in operating assets and liabilities		2,155,644	9,890,387
Investments at fair value through income statement		(890,952)	(4,279,234)
Loans and advances		(1,577,309)	(3,285,170)
Other assets		513,938	10,352,711
Accounts payable and other liabilities		(1,694,190)	(1,950,572)
Interest income received		1,510,049	1,371,226
Net cash from operating activities		17,180	12,099,348
Cash flows from the investing activities			
Term deposits		(2,343,615)	50,000
Purchase of investments available for sale		(7,413,409)	(11,616,367)
Proceeds from sale of investments available for sale		25,094,653	2,063,282
Purchase of investment in an associate		-	(8,774,244)
Purchase of intangible asset		-	(77,766)
Purchase of equipment		(4,128,384)	(3,304,806)
Disposal of equipment		5,194	-
Dividend income received		921,117	527,683
Net cash from/(used in) investing activities		12,135,556	(21,132,218)
Cash flows from the financing activities			
New loans from banks and financial institutions		21,956,464	25,535,042
Repayment of loans from banks and financial institutions		(29,009,631)	(13,822,976)
Purchase of treasury shares		(1,582,168)	(514,179)
Proceeds from sale of treasury shares		449,522	5,898,799
Proceeds from employee share option plan		631,342	650,185
Dividends paid		(6,438,965)	(1,678,674)
Interest expenses paid		(1,833,369)	(2,270,305)
Net cash (used in)/from financing activities		(15,826,805)	13,797,892
(Decrease)/increase in cash and cash equivalents		(3,674,069)	4,765,022
Cash and cash equivalents at beginning of the year		8,401,642	3,636,620
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	4,727,573	8,401,642

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

Kuwait and Middle East Financial Investment Company K.S.C. (Closed) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. ACTIVITIES

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 (the group) are engaged in carrying out investment, portfolio management and brokerage activities on its own account and for clients. The company's registered office is at 15th floor, Burj A1 Jassem Building, A1 Sour Street, Kuwait City, Kuwait.

The company's shares are listed on the Kuwait Stock Exchange. The company is a subsidiary of The Bank of Kuwait and The Middle East K.S.C. (the parent company), which is listed on the Kuwait Stock Exchange. The Bank of Kuwait and The Middle East K.S.C. 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 2008 were authorised for issue in accordance with a resolution of the board of directors on 31 March 2009. The shareholders of the company have the power to amend these consolidated financial statements at the annual general meeting.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year except that group has adopted amendments to IAS 39, Financial Instrument: Recognition and Measurement. The effect on the financial performance or position of the group is discussed in Note 5.

The principle effects of these changes are as follows:

Amendments to IAS 39, Financial Instrument: Recognition and Measurement:

On 13 October 2008, the International Accounting Standards Board (IASB) approved and published

Kuwait and Middle East Financial Investment Company K.S.C. (Closed) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* to allow reclassifications of certain financial instruments held for trading to either held to maturity, loans and receivables or available for sale categories with effect from 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 takes effect from the date the reclassification was made.

As a result, the group has reclassified certain investments held for trading with fair value of KD 24,003,053 to the 'available for sale' category, as these investments were no longer held for the purpose of selling or repurchasing in the near term due to the impact of the global financial crisis on the regional and international equity markets. Consequently, all unrealised gains and losses in respect of these investments are recognised in fair valuation reserve in equity.

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

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the group:

IFRS 2 Share-based payment (Revised)

The IASB issued an amendment to IFRS 2 in January 2008, becoming effective for the period commencing on or after 1 January 2009. The new standard clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

IFRS 8 Operating Segments

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the group discloses information about its operating segments.

IAS 1 Presentation of Financial Statements

IAS 1 Presentation of Financial Statements will be effective for the accounting periods beginning 1 January 2009. The application of this standard will result in amendments to the presentation of the consolidated financial statements.

IFRS 3 Business Combinations (Revised) and Consequential Amendments to IAS 27 Consolidated and Separate Financial Statements.

The standard is applicable for business combinations for which the acquisition date is on or after the beginning of the reporting period be on or after 1 July 2009.

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

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2008. The financial statements of the subsidiaries for the purpose of consolidation are prepared for the same reporting year and using consistent accounting policies as followed by the company.

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

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

Minority interest represents the share of results and net assets in consolidated subsidiaries attributable to minority shareholders. Profit attributable to minority interest is presented in the consolidated income statement and within equity in the consolidated balance sheet, separately from company's shareholders' equity.

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding	
			2008	2007
Online Soft Computer Systems Company K.S.C.C.	Kuwait	Online brokerage	100%	100%
Al Awsat First Holding Company K.S.C.C.				
Middle East Financial Brokerage Company L.L.C.	Kuwait	Holding company	100%	100%
Middle East Brokerage Company L.L.C.	U.A.E.	Brokerage	100%	100%
Egypt & Middle East Brokerage Company	Oman	Brokerage	100%	100%
Kuwait & Middle East Financial Investment Company, Jordan	Jordan	Brokerage	100%	100%
Future E-Trade Company K.S.C.C.	Kuwait	Electronic trade	-	60%
Middle East Financial Brokerage Company K.S.C.	Kuwait	Electronic trade	90%	90%

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

All investments in subsidiaries are pledged as security for the loan obtained from Ahli United Bank B.S.C., Bahrain (Note 12).

On 6 April 2008, Future E-Trade Company K.S.C.C. was liquidated and accordingly the company has recorded a loss of KD 15,192 in the consolidated income statement.

Cash and cash equivalents

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

Financial assets and liabilities

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

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

Investment at fair value through income statement

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

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

Investments available for sale

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

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

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method, less any provision for impairment.

Loans and advances, and certain other assets are classified as "loans and receivables".

Financial liabilities other than at fair value through income statement

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

Fair value

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

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

Recognition and de-recognition

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

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

- the rights to receive the cash flows from the asset have expired;
- the group has retained its right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the group has transferred its right to receive cash flows from the assets and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

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

A financial liability is derecognized when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet 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.

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 balance sheet 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 income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

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

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 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.

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Equipment

Equipments are stated at cost, net of accumulated depreciation and any impairment losses, if any.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

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

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

Expenditure incurred to replace a component of an item of equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written OR 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 income statement as the expense is incurred.

Provisions

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

Employees' end of service indemnity

Provision is made for employees' end of service indemnity in accordance with the Kuwait Labour Law 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 balance sheet date. Employees' end of service indemnity is included under 'Accounts payable and other liabilities'.

Impairment of financial asset

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of financial assets, may be impaired. In the case of financial asset classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

the consolidated income statement, is removed from equity and recognised in the consolidated income statement. Impairment losses on investment available for sale recognised in the consolidated income statement are not reversed through the consolidated income statement.

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 income statement.

In addition, in accordance with Central Bank of Kuwait (CBK) instructions, a minimum general provision of 2% is made on all loans and advances as of 31 December 2006 (net of certain restricted categories of collateral) that are not provided for specifically. In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral during the reporting period. The minimum general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities would be retained as a general provision until further directive issued by the CBK.

Provision for impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each balance sheet 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 income statement.

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 balance sheet date are translated to Kuwaiti Dinars at rates of exchange ruling at the balance sheet date. Any resultant gains or losses are recognised in the consolidated income statement.

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

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

were determined. In case of nonmonetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair value are recognised in the consolidated income statement are recognised in the consolidated income statement.

Assets (both monetary and non-monetary) and liabilities, of foreign operations are translated at the exchange rates prevailing at the balance sheet date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation.

Treasury shares

Treasury shares consist of the company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the general reserve and statutory reserve. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share based payment

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

Revenue recognition

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

Fiduciary assets

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

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

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

Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. The group's primary format for segment reporting is based on business segments. Segment results include revenue and expenses directly attributable to a segment and an allocation of cost of funds to segments based on the daily weighted average balance of segment assets.

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 income statement. 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;

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

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

3. CASH AND CASH EQUIVALENTS

	2008 KD	2007 KD
Cash and bank balances	2,202,234	5,523,789
Short term deposits	2,525,339	2,877,853
Cash and cash equivalents	<u>4,727,573</u>	<u>8,401,642</u>

Certain balances included in cash and cash equivalents are placed with related parties (Note 18).

Short term deposits bear interest rate at commercial rates, ranging from 0.5% to 3.5% (2007: 1.5% to 5.15%) per annum.

4. TERM DEPOSITS

Term deposits are held with commercial banks in the region, for a period of two years at an interest rate of 4.35% per annum (2007: Nil) payable quarterly.

5. INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT

	2008 KD	2007 KD
Financial assets held for trading:		
Quoted equity securities	21,297	725,605
Equity funds	5,220,546	29,398,238
	<u>5,241,843</u>	<u>30,123,843</u>

Certain investments in funds with a fair value of KD 24,003,053 have been reclassified to investments available for sale following the implementation of amendments of IAS 39, Financial Instruments: Recognition and Measurement (Note 2) as these investments were no longer held for the purpose of selling or repurchasing in the near term.

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

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

6. INVESTMENTS AVAILABLE FOR SALE

	2008 KD	2007 KD
Quoted equity securities	424,431	11,087,809
Unquoted equity securities	8,010,853	-
Managed funds	21,450,780	18,515,889
	<u>29,886,064</u>	<u>29,603,698</u>

Investment available for sale include unquoted equity investments carried at cost of KD 3,040,477 (2007: KD 2,613,570) 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 29,072,360, and realised a gain on disposal of KD 6,086,962. Total consideration includes an amount of KD 4 million that is included under other assets, due on 2 June 2009 and is carried at amortised cost using an effective interest rate of 8.25% per annum.

Certain investment available for sale amounting to KD 24.6 million are pledged as security for loan from Ahli United Bank B.S.C., Bahrain (Note 12).

7. LOANS AND ADVANCES

	2008 KD	2007 KD
Loans to customers	15,569,793	13,885,549
Loans to staff	72,469	76,051
	15,642,262	13,961,600
Less: General provision	(156,423)	(242,969)
	<u>15,485,839</u>	<u>13,718,631</u>

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

	2008 KD	2007 KD
At 1 January	242,969	206,706
Charge for the year	16,807	36,263
Release of excess general provision	(103,353)	-
At 31 December	<u>156,423</u>	<u>242,969</u>

The analysis of general provision set out above is based on the requirements of the Central Bank of Kuwait (CBK). In March 2007, the CBK issued a circular amending the basis of making minimum general

Kuwait and Middle East Financial Investment Company K.S.C. (Closed)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

Financial assets and liabilities (continued)

provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral during the reporting period. The minimum general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities amounting to KD 103,353 (2007: KD 103,353) been recognised in the consolidated income statement as per the instruction of CBK dated 20 November 2008 (Note 14).

All loans and advances and related collateral are pledged as security for the loan from Ahli United Bank B.S.C., Bahrain (Note 12).

8. INVESTMENT IN AN ASSOCIATE

The company has 30% (2007:30%) interest in Middle East Financial Investment Company, an unquoted company incorporated in Kingdom of Saudi Arabia engaged in investment activities. The associate commenced operations during the fourth quarter of 2007.

The share in assets, liabilities, revenues and result of the associate for the period ended 31 December 2008 is as follows:

	2008 KD
Share of associate's balance sheet:	
Current assets	7,998,400
Non-current assets	293,194
Current liabilities	(229,646)
Non-current liabilities	(13,599)
Net assets	<u>8,048,349</u>
Share of associate's revenues and losses	
Operating loss	(212,602)
Loss for the period	<u>(774,783)</u>

Investment in an associate is pledged as security for loan from Ahli United Bank B.S.C., Bahrain (Note 12).

9. OTHER ASSETS

	2008 KD	2007 KD
Application money for investments	503,851	254,415
Due from unsettled trades	180,303	2,567,164
Accrued management fee	698,170	1,776,979
Receivable from disposal of investments available for sale (Note 6)	3,977,707	-
Advance paid to acquisition of property	1,903,795	-
Prepaid expenses	420,040	281,517
Others	1,461,504	717,568
	<u>9,145,370</u>	<u>5,597,643</u>

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10. INTANGIBLE ASSETS

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

11. EQUIPMENT

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

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11. EQUIPMENTS (continued)

	<i>Furniture & equipment KD</i>	<i>Computers KD</i>	<i>Software KD</i>	<i>Capital work in progress KD</i>	<i>Total KD</i>
Cost					
At 1 January 2007	860,940	821,773	636,181	-	2,318,894
Additions	1,277,606	330,049	99,040	1,598,111	3,304,806
Disposals	(27,291)	(14,534)	(37,549)	-	(79,374)
At 31 December 2007	<u>2,111,255</u>	<u>1,137,288</u>	<u>697,672</u>	<u>1,598,111</u>	<u>5,544,326</u>
Accumulated depreciation					
At 1 January 2007	622,402	407,226	275,301	-	1,304,929
Depreciation	87,619	156,385	117,491	-	361,495
Disposals	(27,291)	(14,534)	(37,549)	-	(79,374)
At 31 December 2007	<u>682,730</u>	<u>549,077</u>	<u>355,243</u>	<u>-</u>	<u>1,587,050</u>
Net book value					
At 31 December 2007	<u>1,428,525</u>	<u>588,211</u>	<u>342,429</u>	<u>1,598,111</u>	<u>3,957,276</u>

12. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2008 KD</i>	<i>2007 KD</i>
Unsecured bank loans	10,000,000	42,231,527
Secured bank loans	26,196,800	1,018,440
	<u>36,196,800</u>	<u>43,249,967</u>

In the current year, unsecured loans represent revolving loans taken from local banks. In the previous year, unsecured bank loans primarily represent loans from Ahli United Bank B.S.C., Bahrain (Note 18).

In the current year, secured bank loans represent loans from Ahli United Bank B.S.C., Bahrain secured by mortgaging assets of the company comprising of investment in subsidiaries (Note 2), certain investments available for sale (Note 6), loans and advances (Note 7), and investment in an associate (Note 8). In the previous year, secured loans represent margin loans from foreign banks mortgaged against the company's investment.

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13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<i>2008 KD</i>	<i>2007 KD</i>
Staff payables	2,105,500	2,710,653
Provision for contribution to KFAS, NLST and Zakat	171,461	479,097
Loan interest payable	286,426	128,923
Brokerage payables	99,106	243,651
Others	1,040,746	1,445,320
	<u>3,703,239</u>	<u>5,007,644</u>

14. EQUITY

Share capital

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

	<i>2008 KD</i>	<i>2007 KD</i>
Authorised: 239,831,810 shares of 100 fils each (31 December 2007: 217,606,862 shares of 100 fils each)	23,983,181	21,760,686
Issued and fully paid up: 239,367,546 shares of 100 fils each (31 December 2007: 215,401,627 shares of 100 fils each)	23,936,755	21,540,163

In the annual general meeting held on 17 March 2008, the shareholders approved the increase of authorised share capital from 217,606,862 shares of 100 fils each to 239,831,810 shares of 100 fils each.

Issue of employee stock option shares

The issued and fully paid up capital includes shares 15,373,376 (2007: 12,793,756 shares) on account of share option plan for employees (Note 17).

In the annual general meeting held on 17 March 2008, the shareholders approved an employee share option plan to issue 464,262 shares as stock options to employees.

Issue of bonus shares

In the annual general meeting held on 17 March 2008, the shareholders approved the Board of Directors' recommendation to issue 21,760,686 bonus shares of 100 fils each in the ratio of 10 shares for every 100 shares to shareholders' as of the date of the annual general meeting.

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14. EQUITY (continued)

Cash dividend

In the annual general assembly meeting held on 17 March 2008, the shareholders approved the Board of Directors' recommendation of a cash dividend of 30 fils per share amounting to KD 6,438,965 to shareholders as of the date of the annual general meeting.

Treasury shares

	2008 KD	2007 KD
Number of own shares	2,235,000	-
Percentages of issued shares	0.934%	-
Book Value (KD)	1,139,220	-
Market value (KD)	614,625	-

Treasury shares reserve is not available for distribution.

Share premium

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

Statutory reserve

As required by the Commercial Companies Law and the company's Articles of Association, 10% of the profit for the year attributable to shareholders of the company before directors' fees and contribution to Zakat, KFAS and NLST has been transferred to statutory reserve. The company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

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 contribution to directors' fees and contribution to Zakat, KFAS and NLST has been 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.

The general reserve includes dividends received on the treasury shares prior to Central Bank of Kuwait circular no. 2/RS/75/99 dated 14 December 1999, amounting to KD Nil (2007: KD 36,500) which is not distributable.

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14. EQUITY (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 has now been recognised in the consolidated income statement and transferred to general reserve and is not available for distribution.

The Board of Directors have also proposed an issue of 10 bonus shares for every 100 shares held (2007: 10 bonus shares for every 100 shares held). The consolidated financial statements have not been adjusted to reflect the issue of bonus shares as they are subject to the approval of the shareholders in the Annual General meeting.

15. INTEREST INCOME AND INTEREST EXPENSE

	2008 KD	2007 KD
Interest income:		
Term deposits and bank balances	310,312	237,614
Loans and advances	1,466,010	1,464,367
Total interest income	1,776,322	1,701,981
Interest expense:		
Bank borrowings	2,119,794	2,399,229

16. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for year presented in the consolidated income statement are calculated as follow:

	2008 KD	2007 KD
Profit for the year attributable to the shareholders of the company (KD)	3,933,942	13,262,320
Weighted average number of shares outstanding during the year – Basic EPS	237,270,256	233,211,730
Weighted average number of shares outstanding during the year - Diluted EPS	237,270,256	234,174,273
diluted earnings	16.58	56.87
Basic earnings per share (fils)	16.58	56.87
Diluted earnings per share (fils)	16.58	56.63

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16. BASIC AND DILUTED EARNINGS PER SHARE (continued)

Basic and diluted earnings per share reported were 62.66 fils and 62.37 fils respectively for the year ended 31 December 2007, before retroactive adjustments to the number of shares following the bonus issue (Note 14). The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares.

	2008	2007
Weighted average number of issued and paid up shares	238,879,504	236,470,618
Less: Weighted average number of treasury shares	(1,609,248)	(3,258,888)
Weighted average number of shares for basic earnings per share purposes	237,270,256	233,211,730
Add: Weighted average number of shares under employee share option plan	-	962,543
Weighted average number of shares for diluted earnings per share purposes	237,270,256	234,174,273

17. EMPLOYEE SHARE OPTION PLAN

2006 Plan:

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

The options vest as follows:

- First tranche - 100% of the grant vest immediately after the grant date;
- Second tranche - 100% of the grant vest immediately after the grant date;
- Third tranche - 100% of the grant vest immediately after the grant date.

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

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

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

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17. EMPLOYEE SHARE OPTION PLAN (continued)

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

As of 31 December 2008, 1,410,725 stock options were not exercised (31 December 2007: 2,994,264). The Company accounted for option expenses in the year ended 31 December 2008 for stock options amounting to KD Nil (2007: KD 156,780). These amounts have been recognised in the consolidated income statement with a corresponding credit to stock options reserve in equity.

Employees can exercise the options till June 2011.

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

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

	<i>Options Outstanding (Number)</i>	<i>Weighted exercise Price (KD)</i>	<i>Weighted average share price (KD)</i>
Issued options for the 2006 Plan	5,979,115		
Options exercised for the 2006 plan	(5,564,471)	0.217	0.510
Bonus shares on 2006 plan	996,081		
Outstanding options as at 31 December 2008	<u>1,410,725</u>		

18. RELATED PARTY TRANSACTIONS

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

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

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21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (cont'd)

The maturity profile of the assets and liabilities at 31 December 2008 and 31 December 2007 are as follows:

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Assets										
Cash and cash equivalents	4,727,573	8,340,419	-	-	-	61,223	-	-	4,727,573	8,401,642
Term deposits	-	-	-	-	-	-	2,343,615	-	2,343,615	-
Investments at fair value through income statement	11,659,931	11,087,809	5,241,843	18,463,912	-	-	-	-	5,241,843	30,123,843
Investments available for sale	424,431	11,087,809	-	-	-	-	29,461,633	18,515,889	29,886,064	29,603,698
Loans and advances	4,571,171	2,312,783	3,860,358	2,510,345	6,927,065	8,895,503	127,245	-	15,485,839	13,718,631
Investment in an associate	-	-	-	-	-	-	8,048,349	8,774,244	8,048,349	8,774,244
Other assets	4,663,812	5,570,138	-	-	4,481,558	-	-	27,505	9,145,370	5,597,643
Intangible assets	-	-	-	-	-	-	12,691,532	12,691,532	12,691,532	12,691,532
Equipment	-	-	-	-	-	-	7,536,351	3,957,276	7,536,351	3,957,276
	14,386,987	38,971,080	9,102,201	20,974,257	11,408,623	8,956,726	60,208,725	43,966,446	95,106,536	112,868,509
Liabilities										
Loans from banks and financial institutions	10,000,000	37,631,232	-	4,290,031	19,647,600	1,328,704	6,549,200	-	36,196,800	43,249,967
Accounts payable and other liabilities	473,928	815,762	-	-	2,220,231	3,238,186	1,009,080	953,696	3,703,239	5,007,644
	10,473,928	38,446,994	-	4,290,031	21,867,831	4,566,890	7,558,280	953,696	39,900,039	48,257,611
Net liquidity gap	3,913,059	524,086	9,102,201	16,684,226	(10,459,208)	4,389,836	52,650,445	43,012,750	55,206,497	64,610,898

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22. SEGMENT INFORMATION

The group operates in the following distinguishable business segments. These business segments form the basis on which the company reports its primary segmental information:

- International investments: engaged in investment activities on own account and for clients, in international markets;
- Investments in GCC markets: engaged in investment activities on own account and for clients in Kuwaiti and GCC markets
- Brokerage: engaged in broking and on-line trading on own account and for clients in international and local markets.

Financial information about business segments for year ended 31 December 2008 and 31 December 2007 are as follows:

	International investment KD	Investment in GCC Markets KD	Brokerage KD	Unallocated KD	Total KD
As at 31 December 2008					
Segment revenue	(3,064,354)	11,811,784	6,266,149	2,811,589	17,825,168
Segment expenses	189,209	1,368,071	3,926,386	8,203,909	13,687,575
Segment results	(3,253,563)	10,443,713	2,339,763	(5,392,320)	4,137,593
Segment assets	10,486,273	32,758,031	13,131,844	38,730,388	95,106,536
Segment liabilities	-	-	509,399	39,390,640	39,900,039
	10,486,273	32,758,031	12,622,445	(660,252)	55,206,497
Other segmental information:					
Depreciation	45,335	104,264	450,342	159,452	759,393
Capital expenditure	-	-	3,371,233	968,859	4,340,092
Impairment losses on investments available for sale	82,611	1,382,520	-	-	1,465,131
As at 31 December 2007					
Segment revenue	1,768,074	11,008,760	8,552,861	4,462,675	25,792,370
Segment expenses	1,209,388	2,726,620	4,189,339	4,404,703	12,530,050
Segment results	558,686	8,282,140	4,363,522	57,972	13,262,320
Segment assets	18,200,124	46,660,333	25,515,701	22,492,351	112,868,509
Segment liabilities	-	-	2,005,878	46,251,733	48,257,611
	18,200,124	46,660,333	23,509,823	(23,759,382)	64,610,898
Other segmental information					
Depreciation	1,027	6,032	258,504	95,932	361,495
Capital expenditure	-	-	1,629,344	1,675,462	3,304,806
Impairment losses on investment available for sale	140,594	-	-	-	140,594

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22. SEGMENT INFORMATION (continued)

Secondary segment information

The following table presents revenue, expenditure and total asset information regarding the group's geographical segments for the years ended 31 December 2008 and 31 December 2007.

	Kuwait KD	GCC and the rest of the Middle East KD	International KD	Total KD
As at 31 December 2008				
Segment operating revenues	19,315,442	1,574,080	(3,064,354)	17,825,168
Segment assets	56,391,499	25,221,595	13,493,442	95,106,536
Contingent liabilities and commitments	2,668,683	7,757,483	1,073,341	11,499,507
	Kuwait KD	GCC and the rest of the Middle East KD	International KD	Total KD
As at 31 December 2007				
Segment operating revenues	13,015,536	11,008,760	1,768,074	25,792,370
Segment assets	48,008,052	46,660,333	18,200,124	112,868,509
Contingent liabilities and commitments	9,953,485	3,742,295	214,178	13,909,958

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Financial instruments measured at fair value

Fair value of all the financial assets carried at fair value are based on quoted market price except for certain unquoted instruments classified as investments available for sale whose fair value is determined using valuation techniques where all the model inputs are observable in the market. Value of such investments amounts to KD 9,764,939 (2007: KD 15,902,319).

Financial instruments measured at amortized cost

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

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24. 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.

24.1. 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 consolidated balance sheet date.

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

Gross maximum exposure to credit risk

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

	2008 KD	2007 KD
Cash equivalents	4,714,979	8,384,796
Term deposits	2,343,615	-
Loans and advances	15,485,839	13,718,631
Other assets	6,297,300	6,913,834
Gross maximum credit risk exposure	28,841,733	29,017,261

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24. RISK MANAGEMENT (continued)

24.1. CREDIT RISK (continued)

The maximum credit exposure to any single client or counterparty as of 31 December 2008 was KD 4,476,541 (2007: KD 2,037,123) before taking account of collateral or other credit enhancements and KD Nil (2007: KD Nil) net of such protection.

Collateral and other credit enhancements

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

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

The fair value of collateral that the group holds relating to loans and advances and other assets at 31 December 2008 amounts to KD 30,692,295 (2007: KD 40,798,989).

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:

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24. RISK MANAGEMENT (continued)

24.1. CREDIT RISK (continued)

	<i>Assets</i>		<i>Contingent liabilities and commitments</i>	
	<i>2008 KD</i>	<i>2007 KD</i>	<i>2008 KD</i>	<i>2007 KD</i>
Geographic region:				
Kuwait	21,660,305	17,789,678	2,668,683	9,953,485
Other Middle East	7,150,950	9,014,643	7,757,483	3,742,295
U.S.A. and Canada	-	385,345	-	-
Rest of the World	30,478	1,827,595	1,073,341	214,178
	28,841,733	29,017,261	11,499,507	13,909,958

	<i>Assets</i>		<i>Contingent liabilities and commitments</i>	
	<i>2008 KD</i>	<i>2007 KD</i>	<i>2008 KD</i>	<i>2007 KD</i>
Industry sector:				
Banks and financial institutions	11,385,615	8,384,796	7,795,325	8,546,793
Other	17,456,118	20,632,465	3,704,182	5,363,165
	28,841,733	29,017,261	11,499,507	13,909,958

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

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

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

Analysis of past due but not impaired financial assets

The group does not have any past due but not impaired financial assets at 31 December 2008 and 31 December 2007.

Impaired and renegotiated financial assets

As at 31 December 2008, other assets exposed to credit risk of KD 199,576 (2007: KD 56,764) were impaired. The group has not renegotiated any asset that would otherwise be past due or impaired.

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24. RISK MANAGEMENT (continued)

24.3. MARKET RISK

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

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

24.3.1. INTEREST RATE RISK

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

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

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

Currency	<i>Increase of 25 basis points</i>	
	<i>Effect on profit before directors' fees and contribution to Zakat, KFAS and NLST</i>	
	<i>2008</i>	<i>2007</i>
	<i>KD</i>	<i>KD</i>
Kuwait Dinar	4,784	(20,174)
US Dollars	(20,366)	(22,671)
GCC currencies	(33,820)	(27,111)
Other currencies	(1,985)	(2,034)

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

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24. RISK MANAGEMENT (continued)

24.3. MARKET RISK (continued)

24.3.2. EQUITY PRICE RISK

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

The effect of equity as a result of a change in the fair value of the equity instruments held as investments available for sale at 31 December 2008 due to a reasonable possible change in the equity indices, with all other variables held as constant is as follows:

Market indices	Changes in equity price % KD	2008		2007	
		Effect on profit KD	Effect on equity KD	Effect on profit KD	Effect on equity KD
Kuwait index	10%	-	(527,447)	(1,236,086)	(2,147,751)
MSCI Index	10%	-	-	(864,633)	-

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

24.3.3. CURRENCY RISK

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

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.

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Assets denominated in foreign currencies

As at the balance sheet date the Group had the following significant net asset exposures denominated in foreign currencies:

	2008 KD	2007 KD
US Dollars	320,782	733,600
GCC currencies	2,368,931	2,089,953
Other	3,836,128	655,224
	<u>6,525,841</u>	<u>3,478,777</u>

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

Change in currency rate by - 5 %
*Effect on profit before KFAS,
 Directors' remuneration, NLST and Zakat*

	2008 KD	2007 KD
USD Dollars	134,048	32,028
GCC currencies	411,897	479,391
Other currencies	(144,850)	11,646

24.3.4. 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.

25. CAPITAL MANAGEMENT

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

No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

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25. CAPITAL MANAGEMENT (continued)

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

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

	2008 KD	2007 KD
Loans from banks and other financial institutions	36,196,800	43,249,967
Other liabilities	3,703,239	5,007,644
	<u>39,900,039</u>	<u>48,257,611</u>
Less: cash and cash equivalents and term deposits	7,071,188	8,401,642
Net debt	<u>32,828,851</u>	<u>39,855,969</u>
Equity attributable to the shareholders of the company	52,564,922	62,183,957
Gearing ratio (%)	<u>62.45</u>	<u>64.10</u>

26. COMPARATIVES

Certain comparative figures have been regrouped to confirm to current year classification. Comparative amounts totalling KD 1,598,111 have been reclassified from other assets to equipment. Such classification has not affected previously reported profit or equity.