KMEFIC

Annual Report 2011

Contents

كميفك
K M E F I C

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

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

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

Board of Directors

Hamed Hamad Al Sanee
Chairman & Managing Director

Hamad A. Al-Marzouk
Vice Chairman

Ahmed Zulficar
Director

Prakash Mohan
Director

Jihad Al Humaidhi
Director

Herschel Post
Director

Sanjeev Baijal
Director

Chairman's Message

Dear Shareholders,

GCC countries showed signs of continued recovery during the year 2011. The International Monetary Fund (IMF) expects the region's economies to register a growth of 6.7%, largely supported by Qatar's rapid expansion and moderately stronger than 2010's growth of 5.9%. The GCC economies were initially forecasted by the IMF to grow by 7.3% in 2011 but this forecast was revised downwards halfway through the year. Kuwait's economy is estimated to have grown 5.7% in 2011, significantly better than its growth in 2010 which stood at 3.4%. Estimated growth rates for the remaining GCC economies ranged between a low of 1.5% (Bahrain) and a high of 18.7% (Qatar).

Despite the actuality of the aforementioned facts and figures, a forward looking outlook suggests no optimism should a solution to the Eurozone crisis reach a dead end. In fact, both the World Bank and the International Monetary Fund have lowered their global growth forecasts for 2012. "The World Bank has revised downward its global growth forecast for 2012, acknowledging that the world is in a precarious position under threat of a Lehman-like crisis engulfing capital markets." The World Bank's worst-case scenario puts forward additional narrowing in the global economy should credit markets in the Eurozone countries freeze. The bank reviewed to 5.4% its global growth forecast for 2012 for developing countries (down from 6.2%), and 1.4% for high-income countries (from 2.7%). The IMF also sees the Eurozone threats escalating; the deterioration in global financial conditions has pushed the IMF to revise down its global output projections by 75 basis points to 3.25% in 2012.

Higher oil prices and huge government spending were the main drivers of real GDP growth in the GCC. While regional political unrest has caused volatility in the oil markets, oil prices ended the year 2011 in green territory, rising 8.2%. Total government expenditures are estimated to have risen 18.8% in 2011 to reach US$448 billion, representing 33% of the GCC countries' combined GDP. Large government spending is not expected to stop anytime soon with the IMF forecasting total government expenditures of the GCC countries to reach US$591 billion by 2016. Furthermore, high oil prices have helped raise the GCC countries' external current account surplus to an estimated US$279 billion, up 71% from the previous year.

Contrary to the improvement in GDP figures, the region's average inflation rate rose in 2011 and stood at 3.6%, higher than 2010's 3.0% However, inflation is expected to cool off slightly and to average 3.2% in the next five years. The GCC countries' debt to GDP levels remained low in 2011 with gross government debt as a percentage of GDP standing at an average of 16.6%. This was lower than the MENA region's average of 25.1% and significantly below the world's average of 79.6%.

Regional political unrest, termed as the "Arab Spring," has increased the geopolitical risks in the region. This, coupled with the ongoing European debt crisis, has operated a rise in the risk premiums of the GCC countries with the rates on the majority of the sovereign credit default swaps (CDS) hiking this year. Furthermore, GCC stock markets were adversely affected by the Arab Spring and the debt crisis in Europe; all of the GCC stock markets (except for Qatar) performed negatively in 2011 and witnessed losses in market value. Bahrain Bourse was the top loser with its main index dipping by 20.2% and saw its market value decline by 19.9%.

This was mainly due to the fact that Bahrain was hit the hardest by the Arab Spring out of its GCC peers. Dubai Financial Market was the second biggest loser with its main index dipping by 17.0% followed by Kuwait Stock Exchange, Muscat Securities Market and Abu Dhabi Securities Exchange, which declined by 16.4%, 15.7% and 11.7% respectively. Saudi Stock Exchange, while also in the red territory, only witnessed single digit losses with its main index down by 3.1%. Defying the general trend in the GCC stock markets, Qatar Exchange was the sole gainer for 2011 with its main index up by 1.1% and its market value witnessing a growth of 8.2%.

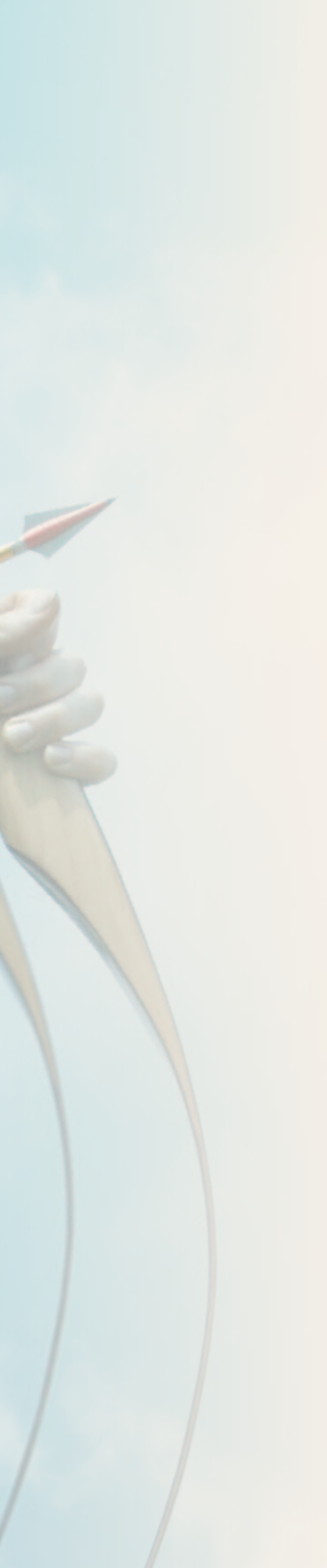
Company's Performance

During 2011, Kuwaiti capital markets declined by 16.22%, which negatively reflected in KMEFIC's performance during the current year. Whereas, for the year 2010, the Kuwait capital markets appreciated by 25.5%.

Despite the market performance being negative, the company achieved total revenue of KD 4.34 million which is higher by 1.15% compared to KD 4.29 million in the previous year. During the year, the main contributors to total income were commission income and management fees. Management fees at KD 2.17 million (lower by 4.4% compared to KD 2.27 million in the previous year) represented approximately 50% of the total revenue. This is followed by commission income of KD 1.21 million (lower by 28.3% compared to KD 1.69 million in the previous year) representing approximately 28% of total revenue. Income from Associate stood at KD 0.374 million (higher by 79% compared to KD 0.209 million in the previous year) constituting 8.6% of total revenue. Also, KMEFIC's investments generated a gain of KD 338 thousand (as compared to a total gain of KD 174 thousand in the previous year).

On the other hand, total operating expenses remained at the same levels as of 2010 despite reduction in staff cost by (13%), due to increase in maintenance and depreciation of the new IT platform. The saving in the administrative expenses are exceeded by increase in IT expenses resulted in the operating expenses increased to KD 7.16 million against KD 7.13 million for 2010. The provision and impairment losses increased to KD 7.66 million as compared to KD 4.57 million in the previous year. A combination of the above factors led the company to


Commitment



Chairman's Message (continued)

incur a higher loss attributable to the shareholders of the company of KD 11.839 million as compared to loss of KD 8.912 million in 2010. This translated into basic and diluted loss per share of (45.3) fils in 2011 compared to basic and diluted loss per share of (34.1) fils in 2010.

Asset Management

We entered 2011 with a cautious optimism on the back of increasing investor risk appetite and a continued recovery of blue chip and investment grade assets. The dramatic and unexpected events in Tunisia however significantly altered the heretofore stable-state by inspiring and mobilizing a new wave of revolution and its attendant instability that rapidly spread throughout the Arab world. The economic effects of the Arab Spring were profound, causing an interruption of the regional recovery and in some individual cases further damaging fragile economies. The robust response however of key GCC states to increase social welfare spending and provide financial support in the form of a regional stimulus package helped to restore confidence to the markets. For most investors though, the increase in volatility was inescapable and created a negative investment environment that penalized all risk assets. During this period, KMEFIC maintained a focus on quality and conservative investment strategies to minimize market impacts. Furthermore, KMEFIC also benefited from the previous year's research and launch of a new series of Wealth Preservation Strategies which now provided clients a timely solution via a dynamic and quantitative approach to managing risk in uncertain environments.

The end of year composite results for KMEFIC equity strategies were hard won. While a negative return environment was difficult to escape, our discretionary equity portfolios and Al Rou'yah Fund generated returns over the benchmark. The Gulf Gate Fund however was most significantly affected by the region's volatility yet still managed in the midst of the Arab Spring to capture Zawya's #1 Ranking for GCC Equity Funds for both 1st and 2nd quarters of 2011. Our international strategies which have also undergone their own investment revolution in terms of a shift from traditional developed markets to emerging and alternative asset classes provided relative return relief for individual and institutional investors. Lastly, in the Financial Derivatives product line our futures and forwards portfolios slid slightly into negative returns but generated significant outperformance against the KSE benchmark extending the team's winning streak to three years of solid relative returns.

While KMEFIC's asset management business ended the year again with an operating profit, it was offset by a decision to terminate the development of a new portfolio management system resulting in associated write-downs. Even with the latter and the year's extreme volatility, the asset management generated a stable run rate in net operating profit further enabled by margin improvements and tight expense management. Despite the political uncertainties and geo-political risks, going forward we maintain a positive outlook based on our stable asset management business model which stands to benefit from improving GCC markets.

Brokerage

During 2011, the main source of income was driven mainly by the brokerage operations and by the online trading (alawsat.com) in Kuwait & Oman represented by our subsidiaries: Middle East Financial Brokerage Company (MEFBC-Kuwait) and Middle East Brokerage Company (MEBC-Oman). These subsidiaries have complemented our online trading business and supported KMEFIC to expand its income stream.

Online Services

KMEFIC's Online Services continues to pursue our vision of translating technological innovations into profitable ventures and strive to attain profitability by harnessing the current potential of technology for new and diversified services and products for the future. Furthermore, we continue to offer trading on the markets of Saudi Arabia, Dubai, Abu


Continuity

Chairman's Message (continued)

Dhabi, Qatar and Kuwait in addition to the U.S. markets.

Research

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

The Stock Markets Research Team produces daily reports reflecting markets' key performance indicators and statistics, hence providing the end reader with a package of information needed to accurately follow the stock markets. The Equity Research Team provides investors with valuation, forecasting, and modeling analysis for a variety of companies listed in the GCC exchanges and their corresponding sectors. The department also provides Macroeconomic Analysis on the regional countries and their capital markets to help readers and clients devise their investment strategies.

The quality of KMEFIC's research stems from a strict adherence to well put Policies and Procedures covering the entire research process, from data collection to report distribution. In addition, KMEFIC's Research Department is committed to monitoring the fundamental variables driving global, regional, and local markets' behavior and studies the current settings of each market through four main aspects, namely, Macroeconomic Climate, Industry Outlook, Stock Markets Research, and Equity Analysis. The team's analysts are passionate about understanding businesses and investments, and thoroughly enjoy the rigor of the research process. The Research Department's output of reports is featured on various elite research providers such as ThomsonReuters, Bloomberg, Zawya, Capital IQ, ISI Emerging Markets, and many others.

Closing Thoughts and Outlook

The political and economic changes of last year will continue to echo in 2012. Our investment approach will reflect this reality as we adopt a highly selective approach to country markets with a further bias toward companies having solid fundamentals and investments that offer good income generation. Over the last few years, we have increased our asset class and portfolio management capability to meet the demands for wealth preservation strategies which are well suited for the current environment.

Within all our discretionary portfolios and Funds, we will focus on applying new and diversified strategies depending on capturing new opportunities and we will re-enter selected international markets demonstrating improved fundamentals and begin to research those MENA markets which are successfully navigating change.

I would like to express my deepest appreciation and thankfulness to KMEFIC's management and staff for their unrelenting commitment and faithfulness in helping the company to overcome the 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. On a final note, I would extend the company's sincere gratitude to all our shareholders and clients for their continued support and belief in KMEFIC's vision.

Hamed Hamad Al-Sanee
Chairman & Managing Director

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Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait and Middle East Financial Investment Company K.S.C. (Closed) (the "company") and its subsidiaries (collectively, the "group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the 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 violations of the Commercial Companies Law of 1960, as amended nor of the Articles of Association have occurred during the year ended 31 December 2011 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 2011.

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

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

05/02/ 2012
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 KD	2010 KD
Assets			
Cash and balances with banks	3	**1,966,086**	3,658,451
Term deposits	4	**464,361**	418,849
Investments	5	**16,763,727**	18,952,119
Loans and advances	6	**8,853,881**	9,391,204
Investment in an associate	7	**8,353,284**	8,273,275
Other assets	8	**1,684,743**	2,801,583
Intangible assets	9	**12,500,000**	12,735,532
Equipment	10	**1,953,845**	8,664,350
Non-current assets held for sale	11	**993,786**	-
Total assets		**53,533,713**	64,895,363
Liabilities and equity			
Liabilities			
Loans from banks and financial institutions	12	**24,089,623**	24,180,359
Accounts payable and other liabilities	13	**5,274,020**	3,163,083
Total liabilities		**29,363,643**	27,343,442
Equity			
Share capital	14	**26,381,499**	26,381,499
Reserves	15	**(2,630,597)**	10,535,753
		23,750,902	36,917,252
Treasury shares	16	**(1,174,880)**	(1,174,880)
Equity attributable to shareholders of the company		**22,576,022**	35,742,372
Non-controlling interests		**1,594,048**	1,809,549
Total equity		**24,170,070**	37,551,921
Total liabilities and equity		**53,533,713**	64,895,363

Hamed Hamad Al Sanee
Chairman & Managing Director

Hamad Abdul Mohsen Al-Marzouq
Vice Chairman

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

Consolidated Statement of Income

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
Continuing operations			
Income			
Management fees	23	**2,165,719**	2,267,336
Interest income	17	**103,668**	192,754
Commission income		**1,210,682**	1,689,378
Net (loss) gain on investments		**(5,312)**	73,665
Dividend income		**343,608**	98,214
Share of results from an associate	7	**373,672**	208,963
Loss on sale of investment properties		**-**	(363,670)
Foreign exchange gain		**70,848**	67,849
Other income		**75,546**	54,620
Net operating income		**4,338,431**	4,289,109
Expenses			
Staff expenses		**2,963,072**	3,412,840
Other operating expenses		**2,282,212**	1,964,926
Depreciation and amortisation	9 & 10	**1,048,799**	874,958
Interest expense		**868,961**	881,928
Operating expenses		**7,163,044**	7,134,652
Operating loss before provisions and impairment losses		**(2,824,613)**	(2,845,543)
Provisions and impairment losses	18	**(7,660,736)**	(4,572,163)
Loss for the year from continuing operations		**(10,485,349)**	(7,417,706)
Discontinued operations			
Loss for the year from discontinued operations	11	**(1,545,981)**	(1,527,166)
Loss for the year		**(12,031,330)**	(8,944,872)
Attributable to:			
Shareholders of the company		**(11,839,281)**	(8,912,327)
Non-controlling interests		**(192,049)**	(32,545)
		(12,031,330)	(8,944,872)
Basic and diluted loss per share (fils)	19	**(45.3)**	(34.1)
Basic and diluted loss per share from continuing operations (fils)	19	**(39.5)**	(28.3)

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 KD	2010 KD
Loss for the year	**(12,031,330)**	(8,944,872)
Other comprehensive loss		
Exchange differences on translation of foreign operations	**(25,787)**	(285,626)
Gain on hedge of net investments (Note 12)	**48,943**	82,879
Net unrealised loss on investments available for sale	**(2,274,384)**	(2,256,767)
Net realised gain transferred to consolidated statement of income on disposal of investments available for sale (Note 5)	**(7,031)**	(101,207)
Impairment loss on investments available for sale transferred to consolidated statement of income (Note 18)	**907,738**	2,429,032
Other comprehensive loss for the year	**(1,350,521)**	(131,689)
Total comprehensive loss for the year	**(13,381,851)**	(9,076,561)
Attributable to:		
Shareholders of the company	**(13,166,350)**	(9,054,649)
Non-controlling interests	**(215,501)**	(21,912)
	(13,381,851)	(9,076,561)

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
Operating activities			
Loss for the year from continuing operations		(10,485,349)	(7,417,706)
Loss for the year from discontinued operations		(1,545,981)	(1,527,166)
Adjustments for:			
Interest income	17	(103,668)	(192,754)
Gain on disposal of investments available for sale	5	(7,031)	(101,207)
Unrealised loss on investments at fair value through statement of income		12,343	27,542
Dividend income		(343,608)	(98,214)
Share of results from an associate	7	(373,672)	(208,963)
Loss on sale of investment properties		-	363,670
Depreciation and amortisation	9,10	1,048,799	874,958
Interest expense		868,961	881,928
Impairment loss on investments available for sale	18	907,738	2,429,032
Reversal of provision for impairment of loans and advances, net	18	(81,185)	(50,773)
Impairment loss on equipment	18	5,767,589	-
Provision for impairment on other assets		-	2,193,934
Impairment loss on remeasurement to fair value less costs to sell	11	835,915	-
Operating loss before changes in operating assets and liabilities		(3,499,149)	(2,825,719)
Investments at fair value through statement of income		761	689
Loans and advances		618,508	5,077,248
Other assets		(84,133)	1,861,771
Accounts payable and other liabilities		1,824,178	(513,521)
Interest income received		96,618	302,555
Net cash (used in) from operating activities		(1,043,217)	3,903,023
Investing activities			
Term deposits (matured) invested		(45,712)	8,170
Purchase of investments available for sale		(505,538)	(764,276)
Proceeds from disposal of investments available for sale	5	602,903	3,144,598
Proceeds from sale of investment properties		-	8,200,000
Purchase of equipment, net of disposal of equipment		(168,413)	(1,096,112)
Dividend income received		343,608	98,214
Net cash from investing activities		226,848	9,590,594
Financing activities			
New loans from banks and financial institutions		-	1,000,000
Repayment of loans to banks and financial institutions		(90,736)	(13,432,005)
Interest expense paid		(785,260)	(847,163)
Net cash used in financing activities		(875,996)	(13,279,168)
(Decrease) Increase in cash and balances with banks		(1,692,365)	214,449
Cash and balances with banks at beginning of the year		3,658,451	3,444,002
Cash and balances with banks at end of the year	3	1,966,086	3,658,451

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

Consolidated Statement of Changes In Equity

For the year ended 31 December 2011

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

	Attributable to the shareholders of the company				
			Reserves		
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Accumulated losses KD
Balance at 1 January 2010	26,381,499	1,157,687	6,707,958	6,379,860	1,967,353
Loss for the year	-	-	-	-	(8,912,327)
Other comprehensive loss for the year	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(8,912,327)
Transferred to accumulated losses	-	-	-	-	753,743
Other movement in equity of a subsidiary	-	-	-	-	-
Balance at 31 December 2010	26,381,499	1,157,687	6,707,958	6,379,860	(6,191,231)

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

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

	Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Share options reserve KD	Total reserves KD	Treasury shares KD	Non controlling interests KD	Total KD
	600,097	(18,556)	2,042,260	753,743	19,590,402	(1,174,880)	1,831,759	46,628,780
	-	-	-	-	(8,912,327)	-	(32,545)	(8,944,872)
	60,425	(202,747)	-	-	(142,322)	-	10,633	(131,689)
	60,425	(202,747)	-	-	(9,054,649)	-	(21,912)	(9,076,561)
	-	-	-	(753,743)	-	-	-	-
	-	-	-	-	-	-	(298)	(298)
	660,522	(221,303)	2,042,260	-	10,535,753	(1,174,880)	1,809,549	37,551,921

Notes to the Consolidated Financial Statements

At 31 December 2011

1- CORPORATE INFORMATION

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

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

The consolidated financial statements of the group for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the board of directors on 05/02/ 2012. The shareholders of the company have the power to amend these consolidated financial statements at the annual general meeting.

2.1- BASIS OF PREPARATION

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

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

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

2.2- BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2011. The financial statements of the subsidiaries for the purpose of consolidation are prepared for the same reporting year and using consistent accounting policies as followed by the company.

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

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

2.2- BASIS OF CONSOLIDATION (continued)

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding 2011	2010
Online Soft Computer Systems Company K.S.C.C.	Kuwait	Online brokerage	100%	100%
Al Awsat First Holding Company K.S.C.C.	Kuwait	Holding company	100%	100%
Egypt & Middle East Brokerage Company	Egypt	Brokerage	100%	100%
Middle East Financial Brokerage Company K.S.C. ('MEFBC')	Kuwait	Brokerage	90%	90%
Subsidiaries under liquidation (Note 11)				
Middle East Financial Brokerage Company L.L.C.	U.A.E.	Brokerage	100%	100%
Middle East Brokerage Company L.L.C.	Oman	Brokerage	100%	100%
Kuwait & Middle East Financial Investment Company (Held through MEFBC)	Jordan	Brokerage	100%	100%

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

2.3- CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies are consistent with those used in the previous year except for the adoption of amendments to IAS 24 Related party disclosures (Revised) which is applicable for the Group from 1 January 2011. The amended standard clarified the definition of a related party and laid down additional requirement for disclosure of outstanding commitments to related parties. The revised standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The adoption of the amendment does not have any impact on the financial position, performance of the group or additional disclosures in the consolidated financial statements.

During 2011, in addition to the above, the Group adopted number of interpretations and amendments to standards which had an insignificant effect on the consolidated financial statements.

2.4- STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2011:

- IFRS 9: Financial Instruments: Classification and Measurement effective annual periods commencing 1 January 2015.
- IFRS 10 Consolidated Financial Statements: effective annual periods commencing 1 January 2013.
- IFRS 11 Joint Arrangements: effective annual periods commencing 1 January 2013.
- IFRS 12 Disclosure of Interest in Other Entities: effective annual periods commencing 1 January 2013.
- IFRS 13 Fair Value Measurement: effective annual periods commencing 1 January 2013.

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

2.4- STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 11 Joint Arrangements

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures.

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

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

These new standards were issued in May 2011 and are effective for annual periods beginning on or after 1 January 2013.

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

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and balances with banks

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

Financial assets and liabilities

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

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

Investments at fair value through statement of income

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

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

Loans and receivables

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Investments available for sale

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

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

Financial liabilities other than at fair value through statement of income

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

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

Fair value

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

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

Recognition and de-recognition

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Offsetting

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

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset, or a group of financial assets, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. In the case of financial asset classified as investments available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for investments available for sale, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income, is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments classified as investments available for sale recognised in the consolidated statement of income are not reversed through the consolidated statement of income.

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

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

Hedge accounting

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

For the purposes of hedge accounting, hedges are classified into two categories:

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

b- Hedge of net investment in foreign operations

Fair value hedge

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

Hedge of net investments in foreign operations

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates

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

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

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

Intangible assets

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

Equipment

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

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

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

The equipments' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

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

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

Non-current assets held for sale

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In determining the fair value less costs to sell, an appropriate valuation model is used. An assessment is made at each reporting date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Borrowing costs

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

Provisions

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

Employees' end of service indemnity

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

Foreign currency translation

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

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

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

Treasury shares

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment

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

Revenue recognition

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

Fiduciary assets

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

Contingencies

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

2.6- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Classification of financial instruments

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

Impairment losses on loans and receivables

The group reviews its problem loans and receivables on an annual basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of investments available for sale

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

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;

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

Impairment of non financial assets

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

3- CASH AND BALANCES WITH BANKS

	2011 KD	2010 KD
Cash and bank balances	**835,688**	1,912,440
Short term deposits	**1,130,398**	1,746,011
Cash and balances with banks	**1,966,086**	3,658,451

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

Short term local and foreign currency deposits bear interest rate at commercial rates, ranging from 2% to 6% (2010: 1.15% to 5%) per annum.

4- TERM DEPOSITS

Term deposits are held with commercial banks in the region, for a period of one year, at interest rates ranging from 2% to 4.25% (2010: 2% to 4.25%) per annum payable quarterly.

5- INVESTMENTS

	2011 KD	2010 KD
Investments at fair value through statement of income		
Financial assets held for trading:		
Quoted equity securities	**-**	399
Equity funds	**21,889**	34,594
	21,889	34,993
Investments available for sale		
Quoted equity securities	**3,069**	8,466
Unquoted equity securities	**4,566,732**	4,461,122
Managed funds	**12,172,037**	14,447,538
	16,741,838	18,917,126
Total investments	**16,763,727**	18,952,119

Investments available for sale include unquoted equity securities carried at cost of KD 270,182 (2010: KD 270,182) as the fair value cannot be measured reliably.

During the year, the group has disposed of some investments available for sale for a total consideration of KD 602,903 (2010: KD 3,144,598), and realised a gain on disposal of KD 7,031 (2010: KD 101,207).

During the year ended 31 December 2008, the group adopted amendments to IAS 39: Financial instruments: recognition and measurement issued by the IASB on 13 October 2008 and reclassified certain investments in funds with a fair value of KD 24,003,053 from the investments at fair value through statement of income to investments available for sale. The group has recorded unrealised loss of KD 1,388,661 (2010: unrealised gain of KD 819,314) in respect of the reclassified investments in fair valuation reserve within equity. Had the group not adopted the amendments to IAS 39, this unrealised loss would have been recorded in the consolidated statement of income.

Certain investments available for sale amounting to KD 11.97 million (2010: KD 14.2 million) are pledged as security against the loan (Note 12).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

6- LOANS AND ADVANCES

	2011 KD	2010 KD
Loans to customers	**8,471,697**	9,047,338
Loans to staff	**469,136**	512,003
	8,940,833	9,559,341
Less: General provision	**(16,852)**	(98,037)
Less: Impairment	**(70,100)**	(70,100)
	8,853,881	9,391,204

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

	2011 KD	2010 KD
At 1 January	**98,037**	148,810
Charge for the year	**67**	30
Release of excess general provision	**(81,252)**	(50,803)
At 31 December	**16,852**	98,037

All loans and advances and related collateral are pledged as security against the loan (Note 12).

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

7- INVESTMENT IN AN ASSOCIATE

The company has 30% (2010: 30%) interest in Middle East Financial Investment Company, an unquoted company incorporated in Kingdom of Saudi Arabia engaged in financial services activities.

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

	2011 KD	2010 KD
Share of associate's assets and liabilities:		
Current assets	**4,313,496**	1,051,364
Non-current assets	**4,180,632**	7,305,421
Current liabilities	**(120,042)**	(64,328)
Non-current liabilities	**(20,802)**	(19,182)
Net assets	**8,353,284**	8,273,275
Share of associate's income and results		
Operating income	**1,523,539**	815,895
Profit for the year	**373,672**	208,963

Investment in the associate is pledged as security against the loan (Note 12).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

8- OTHER ASSETS

	2011 KD	2010 KD
Dues from unsettled trades	**319,331**	322,287
Accrued management fee	**462,300**	354,164
Receivable from disposal of investment	**3,977,707**	3,977,707
Advance paid for acquisition of a property (Note 11)	**-**	2,236,592
Prepaid expenses	**104,609**	236,823
Others	**806,320**	1,787,145
	5,670,267	8,914,718
Less: Provision for doubtful receivables and advances	**(3,985,524)**	(6,113,135)
	1,684,743	2,801,583

9- INTANGIBLE ASSETS

	Key money KD	Brokerage licenses KD	Total KD
Cost			
At 1 January 2011	110,000	12,691,532	12,801,532
Discontinued operations (Note 11)	-	(191,532)	(191,532)
At 31 December 2011	**110,000**	**12,500,000**	**12,610,000**
Amortisation			
At 1 January 2011	66,000	-	66,000
Amortisation charge for the year	44,000	-	44,000
At 31 December 2011	**110,000**	**-**	**110,000**
Net carrying amount			
At 31 December 2011	**-**	**12,500,000**	**12,500,000**
At 31 December 2010	44,000	12,691,532	12,735,532

Brokerage licences represent licence acquired from Kuwait Stock Exchange for KD 12,500,000 (2010: 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)). This licence has indefinite useful life.

Impairment testing

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

10- EQUIPMENT

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2011	2,245,116	1,646,791	5,501,457	2,659,534	12,052,898
Additions	26,300	3,364	15,750	233,591	279,005
Transfer from capital work in progress	-	410,242	2,478,171	(2,888,413)	-
Disposals	(18,849)	(18,280)	(55,540)	-	(92,669)
Impairment	(319,161)	-	(5,864,044)	-	(6,183,205)
Transfer to discontinued operations (Note 11)	(159,519)	(177,360)	(67,234)	-	(404,113)
Foreign currency adjustment	(1,713)	(1,926)	(551)	(4,712)	(8,902)
At 31 December 2011	**1,772,174**	**1,862,831**	**2,008,009**	**-**	**5,643,014**
Accumulated depreciation					
At 1 January 2011	1,512,467	1,005,210	870,871	-	3,388,548
Depreciation	380,662	203,991	420,146	-	1,004,799
Disposals	(16,962)	(18,099)	-	-	(35,061)
Impairment	(239,423)	-	(176,193)	-	(415,616)
Transfer to discontinued operations (Note 11)	(109,101)	(84,352)	(56,424)	-	(249,877)
Foreign currency adjustment	(1,854)	(1,446)	(324)	-	(3,624)
At 31 December 2011	**1,525,789**	**1,105,304**	**1,058,076**	**-**	**3,689,169**
Net book value at 31 December 2011	**246,385**	**757,527**	**949,933**	**-**	**1,953,845**

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2010	2,389,630	1,138,545	724,471	6,995,733	11,248,379
Additions	11,812	30,574	22,185	1,172,807	1,237,378
Transfer from capital work in progress	-	480,475	4,755,865	(5,236,340)	-
Disposals	(153,286)	(390)	-	(272,666)	(426,342)
Foreign currency adjustment	(3,040)	(2,413)	(1,064)	-	(6,517)
At 31 December 2010	2,245,116	1,646,791	5,501,457	2,659,534	12,052,898
Accumulated depreciation					
At 1 January 2010	1,179,134	830,945	566,540	-	2,576,619
Depreciation	405,855	160,829	286,274	-	852,958
Depreciation - discontinued operations	23,497	15,330	19,052	-	57,879
Disposals	(94,374)	(186)	-	-	(94,560)
Foreign currency adjustment	(1,645)	(1,708)	(995)	-	(4,348)
At 31 December 2010	1,512,467	1,005,210	870,871	-	3,388,548
Net book value at 31 December 2010	732,649	641,581	4,630,586	2,659,534	8,664,350

Interest on term loan of KD 52,984 (2010: KD 141,266) has been capitalised as part of capital work in progress.

During the year, the group has impaired software amounting to KD 5,687,851 (net) due to discontinuation of certain IT application systems (Note18).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

11- DISCONTINUED OPERATIONS

In accordance with a resolution passed by the board of directors on 31 July 2011, the group decided to close down operations of its subsidiaries – Middle East Financial Brokerage Company L.L.C. - U.A.E., Middle East Brokerage Company L.L.C. - Oman and Kuwait and Middle East Financial Investment Company - Jordan and to liquidate its assets taking cognizance of the current challenging and uncertain operating environment. Accordingly, the non-current assets of these subsidiaries have been classified as non-current assets held for sale. The results of the discontinued operations are as follows:

	2011 KD	2010 KD
Income	121,209	299,673
Expenses	(831,275)	(1,826,839)
Impairment loss	(835,915)	-
Loss for the year from discontinued operations	(1,545,981)	(1,527,166)
Attributable to:		
Shareholders of the company	(1,515,819)	(1,515,997)
Non-controlling interests	(30,162)	(11,169)
	(1,545,981)	(1,527,166)
Earnings per share		
Basic and diluted loss per share from discontinued operations (fils)	(5.8)	(5.8)

Impairment loss mainly represents loss incurred on the brokerage license (Note 9) and certain other receivable balances in these subsidiaries included in other assets.

As at 31 December 2011, non-current assets held for sale of KD 993,786 mainly includes an investment property amounting to KD 787,357 which has been reclassified from other assets (Note 8).

The net cash flows incurred by the disposal group:

	2011 KD	2010 KD
Operating	(413,017)	(719,204)
Investing	6,237	81,643
Net cash outflow	(406,780)	(637,561)

12- LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

	2011 KD	2010 KD
Secured bank loans	24,089,623	24,180,359

Secured bank loans represent loans from the parent company, secured by mortgaging assets of the company comprising investment in subsidiaries (Note 2.2), certain investments available for sale (Note 5), loans and advances (Note 6) and investment in an associate (Note 7), with the parent company and ultimate parent company.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

12- LOANS FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

Hedge of net investments in foreign operations

Included in loans from banks and financial institutions are loans of KD 4,329,623 (2010: KD 4,420,359) denominated in foreign currency USD 15,551,247 (2010: USD 15,711,246), which have been designated as a hedge of the net investments in certain foreign operations.

The loans are being used to hedge the group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of loans from banks and financial institutions are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in certain foreign operations. Foreign exchange gain arising on translation of the hedging instruments (loans) amounting KD 48,943 (2010: gain of KD 82,879) were taken directly to other comprehensive income. There is no hedge ineffectiveness at 31 December 2011.

13- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2011 KD	2010 KD
Staff payables	**1,600,672**	1,620,509
Loan interest payable	**686,328**	540,479
Brokerage payables	**78,592**	130,816
Others	**2,908,428**	871,279
	5,274,020	3,163,083

14- SHARE CAPITAL

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

	2011 KD	2010 KD
Authorised: 265,454,991 shares of 100 fils each	**26,545,499**	26,381,499
Issued and fully paid up: 263,814,991 shares of 100 fils each	**26,381,499**	26,381,499

The issued and fully paid up capital includes 15,837,638 shares (2010: 15,837,638 shares) on account of share option plan for employees.

The annual general assembly meeting of the shareholders held on 23 May 2011 approved the issuance of 1,640,000 shares on account of new share option plan (Note 20).

15- RESERVES

Share premium and treasury shares reserve

The share premium represents premiums collected upon issuing new shares to employees under the Employee Stock Option Plan. The balances of share premium and treasury shares reserve are not available for distribution.

Statutory reserve

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

15- RESERVES (continued)

General reserve

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

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

16- TREASURY SHARES

	2011 KD	2010 KD
Number of own shares	2,623,500	2,623,500
Percentage of issued shares	1%	1%
Book Value (KD)	1,174,880	1,174,880
Market value (KD)	131,175	204,633

17- INTEREST INCOME

	2011 KD	2010 KD
Term deposits and bank balances	11,673	10,823
Loans and advances	91,995	181,931
	103,668	192,754

18- PROVISIONS AND IMPAIRMENT LOSSES

	2011 KD	2010 KD
Impairment loss on investments available for sale	907,738	2,429,032
Reversal of provision of impairment on loans and advances, net (Note 6)	(81,185)	(50,773)
Impairment loss on equipment (Note 10)	5,767,589	-
Provision of impairment on other assets	-	2,193,904
Other provisions	1,066,594	-
	7,660,736	4,572,163

19- BASIC AND DILUTED LOSS PER SHARE

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

	2011	2010
Loss for the year attributable to the shareholders of the company (KD)	(11,839,281)	(8,912,327)
Weighted average number of shares outstanding during the year	261,191,491	261,191,491
Basic and diluted loss per share (fils)	(45.3)	(34.1)

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

19- BASIC AND DILUTED LOSS PER SHARE (continued)

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

	2011	2010
Weighted average number of issued and paid up shares	**263,814,991**	263,814,991
Less: Weighted average number of treasury shares	**(2,623,500)**	(2,623,500)
Weighted average number of shares for basic and diluted earnings per share	**261,191,491**	261,191,491

Basic and diluted loss per share from continuing operations

Loss for the year from continuing operations attributable to the shareholders of the company (KD)	**(10,323,462)**	(7,396,330)
Weighted average number of shares outstanding during the year	**261,191,491**	261,191,491
Basic and diluted loss per share from continuing operations (fils)	**(39.5)**	(28.3)

20- EMPLOYEE SHARE OPTION PLAN

2006 Plan

The annual general assembly meeting of the shareholders held on 20 March 2006 approved a share option plan for employees (2006 plan) which expired in June 2011 with total outstanding options of 1,901,310 shares, which were converted to be used for future stock option plans.

	Options Outstanding (Number)	**Weighted exercise price (KD)**	**Weighted average share price (KD)**
Issued options for the 2006 plan	6,443,577		
Bonus shares on 2006 plan	1,182,880		
Options exercised for the 2006 plan	(5,725,147)	0.217	0.510
Outstanding options converted for future stock option plans	1,901,310		

2011 Plan

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

The options vest as follows:

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

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

As at 31 December 2011, the options were out of the money and none of the options were exercised as of that date.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

21- RELATED PARTY TRANSACTIONS

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

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

Related party balances

	2011 KD	2010 KD
Cash placed with the parent company (Note 3)	727,873	1,324,190
Receivable from the parent company	43,979	86,656
Receivable from other related parties	175,003	187,931
Loans and advances to key management personnel	342,245	372,000
Loans taken from the parent company (Note 12)	24,089,623	24,180,359
Guarantees taken from the parent company	1,767,211	1,785,376
Investments and funds managed in a fiduciary capacity	29,267,678	33,135,617

Related party transactions

	2011 KD	2010 KD
Management fees earned	37,125	46,367
Interest income	24,693	32,110
Interest expense on loans taken from the parent company	(921,945)	(1,023,194)

Interest on term loan of KD 52,984 (2010: KD 141,266) has been capitalised as part of capital work in progress.

Key management compensation:	2011 KD	2010 KD
Salaries and other short term benefits	526,370	615,384

22- COMMITMENTS AND CONTINGENT LIABILITIES

	2011 KD	2010 KD
Commitments		
Capital commitments for purchase of equipment	-	692,042
Uncalled capital contributions relating to investments available for sale	213,966	505,073
	213,966	1,197,115
Contingent liabilities		
Guarantees	1,978,184	1,999,371

Guarantees issued by the group noted above exclude a guarantee of KD 42.46 million (2010: KD 42.91 million) because this guarantee is backed by an irrevocable counter guarantee of an equal amount issued in favour of the group by a sovereign authority of Kuwait.

23- FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the company on behalf of clients. These are not assets of the company and accordingly are not included in the consolidated financial statements. As at the reporting date, total fiduciary assets managed by the company amounted to KD 618 million equivalent to US$ 2,219 million (2010: KD 732 million equivalent to US$ 2,600 million). Management fee of KD 2,165,719 (2010: KD 2,267,336) has been recognised by the company for management of fiduciary assets.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

24- MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Assets										
Cash and balances with banks	**1,966,086**	3,152,620	**-**	505,831	**-**	-	**-**	-	**1,966,086**	3,658,451
Term deposits	**-**	-	**-**	-	**464,361**	-	**-**	418,849	**464,361**	418,849
Investments	**7,259,704**	8,561,551	**21,889**	34,993	**1,496,305**	1,926,144	**7,985,829**	8,429,431	**16,763,727**	18,952,119
Loans and advances	**-**	64,350	**49,500**	99,000	**8,804,381**	9,137,764	**-**	90,090	**8,853,881**	9,391,204
Investment in an associate	**-**	-	**-**	-	**-**	-	**8,353,284**	8,273,275	**8,353,284**	8,273,275
Other assets	**563,789**	284,877	**263,298**	132,182	**857,656**	1,188,371	**-**	1,196,153	**1,684,743**	2,801,583
Intangible assets	**-**	-	**-**	-	**-**	-	**12,500,000**	12,735,532	**12,500,000**	12,735,532
Equipment	**-**	-	**-**	-	**12,675**	-	**1,941,170**	8,664,350	**1,953,845**	8,664,350
Non-current assets held for sale	**-**	-	**993,786**	-	**-**	-	**-**	-	**993,786**	-
	9,789,579	12,063,398	**1,328,473**	772,006	**11,635,378**	12,252,279	**30,780,283**	39,807,680	**53,533,713**	64,895,363
Liabilities										
Loans from banks and financial institutions	**-**	11,260,000	**-**	-	**-**	12,920,359	**24,089,623**	-	**24,089,623**	24,180,359
Accounts payable and other liabilities	**89,496**	511,168	**509,217**	346,540	**980,479**	1,052,560	**3,694,828**	1,252,815	**5,274,020**	3,163,083
	89,496	11,771,168	**509,217**	346,540	**980,479**	13,972,919	**27,784,451**	1,252,815	**29,363,643**	27,343,442
Net liquidity gap	**9,700,083**	292,230	**819,256**	425,466	**10,654,899**	(1,720,640)	**2,995,832**	38,554,865	**24,170,070**	37,551,921

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

25- SEGMENT INFORMATION

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

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

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

Capital expenditure consists of additions to equipment.

Segment information for the year ended 31 December is as follows:

	Asset management KD	**Brokerage & online trading KD**	**Credit operations KD**	**Investment & treasury KD**	**Unallocated KD**	**Total KD**
2011						
Segment revenue	**2,165,719**	**1,210,682**	**91,995**	**870,035**	**-**	**4,338,431**
Segment expenses	**(1,817,662)**	**(1,722,754)**	**(21,690)**	**(3,097,036)**	**(503,902)**	**(7,163,044)**
Provisions and impairment losses	**-**	**-**	**81,185**	**(1,974,332)**	**(5,767,589)**	**(7,660,736)**
Segment results – continuing operations	**348,057**	**(512,072)**	**151,490**	**(4,201,333)**	**(6,271,491)**	**(10,485,349)**
Segment assets	**579,188**	**12,702,427**	**9,094,165**	**29,570,250**	**1,587,683**	**53,533,713**
Segment liabilities	**(321,607)**	**(232,582)**	**(7,500,000)**	**(19,099,165)**	**(2,210,289)**	**(29,363,643)**
	257,581	**12,469,845**	**1,594,165**	**10,471,085**	**(622,606)**	**24,170,070**

	Asset management KD	Brokerage & online trading KD	Credit operations KD	Investment & treasury KD	Unallocated KD	Total KD
2010						
Segment revenue	2,267,336	1,689,378	181,931	150,464	-	4,289,109
Segment expenses	(1,885,610)	(730,261)	42,712	(4,251,536)	(309,957)	(7,134,652)
Provisions and impairment losses	-	-	50,773	(4,622,936)	-	(4,572,163)
Segment results - continuing operations	381,726	959,117	275,416	(8,724,008)	(309,957)	7,417,706
Segment assets	321,842	13,285,889	9,391,204	34,310,511	7,585,917	64,895,363
Segment liabilities	(281,853)	(151,252)	(7,500,000)	(11,824,420)	(7,585,917)	(27,343,442)
	39,989	13,134,637	1,891,204	22,486,091	-	37,551,921

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

26- 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 approximated their respective net book values at the reporting date, except for certain unquoted equity instruments classified as investments available for sale (Note 5).

Financial instruments measured at amortised cost

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

Fair value hierarchy

As at 31 December 2011, the group held the following financial instruments measured at fair value.

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

27- RISK MANAGEMENT

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

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

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

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

27.1- CREDIT RISK

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

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

Gross maximum exposure to credit risk

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

	2011 KD	2010 KD
Bank balances	**1,958,086**	3,647,590
Term deposits	**464,361**	418,849
Loans and advances	**8,853,881**	9,391,204
Other assets	**1,580,134**	1,486,036
Gross maximum credit risk exposure	**12,856,462**	14,943,679

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

Collateral and other credit enhancements

Loans and advances are secured against property, investments in quoted and unquoted securities and balances held as fiduciary portfolios, on behalf of the borrowers, managed by the group. Management monitors the market value of collateral, requests additional collateral in accordance with the u nderlying 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 amounts to KD 12,521,910 (2010: KD 13,646,729).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

27- RISK MANAGEMENT (continued)

27.1- CREDIT RISK (continued)

Risk concentration of maximum exposure to credit risk

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

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

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

	Assets		Contingent liabilities and commitments	
	2011	2010	**2011**	2010
	KD	KD	**KD**	KD
Geographic region:				
Kuwait	**10,564,148**	12,082,504	**1,767,211**	1,785,376
Other Middle East	**2,189,842**	2,766,847	**210,973**	213,995
Rest of the World	**102,472**	94,328	**213,966**	1,197,115
	12,856,462	14,943,679	**2,192,150**	3,196,486

	Assets		Contingent liabilities and commitments	
	2011	2010	**2011**	2010
	KD	KD	**KD**	KD
Industry sector:				
Banks and financial institutions	**10,736,930**	12,245,081	**2,192,150**	2,504,444
Other	**2,119,532**	2,698,598	**-**	692,042
Total	**12,856,462**	14,943,679	**2,192,150**	3,196,486

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

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

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

Analysis of past due but not impaired financial assets

As at 31 December 2011, loans and advances exposed to credit risk of KD 7,713,984 (2010: KD 7,713,984) were past due but not impaired.

Impaired financial assets

As at 31 December 2011, other assets, and loans and advances exposed to credit risk of KD 4,063,288 (2010: KD 6,313,303) were impaired against which the group carries a provision of KD 4,055,624 (2010: KD 6,183,235).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

27- RISK MANAGEMENT (continued)

27.2- LIQUIDITY RISK

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

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

Financial liabilities	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Loans from banks and financial institutions	**-**	11,262,159	**-**	-	**-**	13,242,977	**26,167,669**	-	**26,167,669**	24,505,136
Accounts payable and other liabilities	**89,496**	511,168	**509,217**	346,540	**980,479**	1,052,560	**3,694,828**	1,252,815	**5,274,020**	3,163,083
Total undiscounted financial liabilities	**89,496**	11,773,327	**509,217**	346,540	**980,479**	14,295,537	**29,862,497**	1,252,815	**31,441,689**	27,668,219
Contingent liabilities and commitments	**-**	-	**-**	692,042	**1,978,184**	1,999,371	**213,966**	505,073	**2,192,150**	3,196,486

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

27.3- MARKET RISK

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

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

27.3.1- Interest rate risk

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

27- RISK MANAGEMENT (continued)

27.3- MARKET RISK (continued)

27.3.1- Interest rate risk (continued)

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

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

	Increase of 25 basis points	
Currency	Effect on loss	
	2011	2010
	KD	KD
Kuwaiti Dinar	**(28,003)**	(26,473)
US Dollar	**(9,258)**	(9,468)

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

27.3.2- Equity price risk

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

The effect on equity as a result of a change in the fair value of the equity instruments due to a reasonable possible change in the equity indices, with all other variables held as constant is as follows:

		2011		2010	
Market indices	**Changes in equity price %**	**Effect on loss KD**	**Effect on equity KD**	Effect on loss KD	Effect on equity KD
Kuwait Index	10%	**-**	**541,968**	-	697,103
Other GCC Indices	10%	**-**	**117,406**	-	253,647

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

27.3.3- Foreign currency risk

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2011

27- RISK MANAGEMENT (continued)

27.3- MARKET RISK (continued)

27.3.3- Foreign currency risk (continued)

Net assets denominated in foreign currencies

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

	2011 KD	2010 KD
US Dollar	(1,907,255)	(1,980,741)
GCC currencies	12,775,289	3,262,014
Other currencies	382,383	1,475,694
	11,250,417	2,756,967

The effect on loss (due to change in the fair value of monetary assets and liabilities), as a result of change in currency rate, with all other variables held constant is shown below:

	Decline in currency rate by 5% Effect on loss	
	2011 KD	2010 KD
US Dollar	183,070	181,298
GCC currencies	(131,748)	(81,617)
Other currencies	(9,878)	(73,361)

27.3.4- Prepayment risk

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

28- CAPITAL MANAGEMENT

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

No changes were made in the objectives, policies or processes during the year ended 31 December 2011.

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

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.