CONTENTS

Years of Success

Years of Success

His Highness
SHEIKH JABER AL-AHMED AL-JABER AL-SABAH
Amir of the State of Kuwait

40 Years of Success

His Highness
SHEIKH SAAD AL-ABDULLAH AL-SALEM AL-SABAH
Crown Prince and Prime Minister of the State of Kuwait

BOARD OF DIRECTORS

Years of Success

Bader Naser AlSubaiee
Chairman and Managing Director

Rasheed Al-Sayed Yousef Al-Tabtabaei
Deputy Chairman

Eid Abdullah Al-Rasheedi *
Director

Hamad Ahmad Saleh Al-Busairi
Director

Dr. Ayed S. R. Manna
Director

Mazen Mohammed Madouh
Director

Meshari Zaid Al-Khaled
Director

* Mr. Eid Abdullah Al-Rasheedi has replaced the late Fahed Saleh Al-Shaya, may God have Mercy on him.

GENERAL MANAGEMENT

Years of Success

Yousef E. Al-Hassawi

General Manager

Adel J. Al Mudaf

Assistant General Manager, Finance & Administration

Fahad Bader Al Kuhailan

Assistant General Manager, Trading & Treasury

Raed A. Al Saleh

Assistant General Manager, Asset Management

Naser A. Al Salem

Legal Affairs & Secretary of the Board

Wagdi Sayed Eid

Financial Controller

CHAIRMAN'S STATEMENT

■ ***Dear shareholders,***

On behalf of my fellow Board members, the employees, and myself, I would like to congratulate the Kuwaiti people on the safe return of His Highness the Amir, Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah from his medical treatment trip following his illness, and appeal to God to continue blessing him with health and well-being in order to continue the leadership of our beloved country.

I would like to take this opportunity to congratulate you on the 40th anniversary of success and development marking the incorporation of your esteemed Company and to present to you the thirty-eighth annual report of the Company for the fiscal year ended on 31/12/2001.

The 40th anniversary for the Company incorporation is a source of pride and recognition of the Company's honorable past, particularly that as one of the first investment companies to be founded in the State of Kuwait. Since its inception, the Company worked through the help of God and the strenuous efforts of our dear brothers who played remarkable roles in undertaking the task of managing the Company, as they assumed the responsibility of developing it and achieving continuous successes until it became one of the financial corporations known for its efficiency on the local and international domain. During this period, the Company was able to provide the labor market with qualified Kuwaiti expert cadets to undertake the management tasks of numerous affiliate companies. Further, we would not forget the Company's present employees who have assumed this responsibility to continue this march for the benefit of the Company and its shareholders.

The Company addresses remarkable concern to continue its poised policy for risk management in all its investment fields, as well as developing its investment strategies towards expanding the financial services of its customers and expanding its clientele base through the various financial instruments it offers to them. During the year 2001, the Company launched two investment funds, the first is specialized in technology stocks in international markets and is secured by 90% of the capital, and the second is an investment fund specialized in investing in the Kuwait Stock Exchange, with a size amounting to 50 million Kuwaiti Dinars. The Company was able to cover subscription in both funds successfully. It will continue the implementation of its strategy during the forthcoming period as it intends to launch more than one investment fund during the year 2002 in addition to its meticulous efforts to offer new services to its customers.

Furthermore, the Company was able this year to realize good growth in profits, as the sound performance of Kuwait Stock Exchange during 2001 contributed to the Company's achievement of positive returns in its portfolio which has notably exceeded the increase in the local market index, where the Company's portfolio increased by 37.23%. The Kuwait Investment Company index, on the other hand, increased at the end of the year by 29.2% and closed at 185.65 points, while the Kuwait Stock Exchange index increased by 26.9% and closed at 1709.4% points. All the trading indices in the Stock Exchange marked an increase in terms of traded volume, traded value, and number of transactions, that is by 126.4%, 165%, and 107% respectively as compared to last year.

Company's performance in the direct investment activity was steady and realized sound returns over the year. With regard to corporate finance activity, the Company maintained its conservatives and selective policy toward granting of loans. This year, it realized positive performance as the volume of the loans portfolio rose from 14.9 million Kuwaiti Dinars to 15.6 million Kuwaiti Dinars. Additionally, all the granted loans were structured and the Company did not face any default in payment.

The present year has witnessed numerous events that affected the stock markets negatively or positively, but the most significant was the 11th of September 2001 events. Such events resulted in a plunge in all international stock markets, the majority of which were already undergoing a period of stagnation during the year. Also, interest rate cuts were made ten times by the US Federal Reserve Bank thus dropping the rate by 4.25% to become 1.25%. Following such cuts and in an effort to boost the national economy, the Central Bank of Kuwait reduced the interest rates seven times by 3% to become 4.25%. Nevertheless, the Company portfolio in the international markets was able to realize better performance than the indices of those markets as a result of the Company's implementation of a conservative and well studied policy in the investment process.

Thanks to the Company's implementation of a new strategy for expanding its clientele base, the volume of funds administered by the Company’s Assets management Sector increased by 69%. The Company balance sheet indicates an aggregate increase in assets from 131.3 million Kuwaiti Dinars to 164.6 million Kuwaiti Dinars. The net profit for this year has increased and it amounted to 8.6 million Kuwaiti Dinars, marking an increase by 2.3 million Kuwaiti Dinars, i.e. 36.6%. Similarly, shareholders' equities increased to 77.2 million Kuwaiti Dinars with an increase of 10 million Dinars, while the dividend per share increased by 4.62 fils, i.e. 36.6%, compared to the past year. The book value by the end of this year amounted to 142 fils, with an increase of 16 fils, i.e. 12.7%, following the deduction of the part allocated for cash distribution to shareholders, amounting to 12%, which the Company's board of directors recommended to the General Assembly.

On this occasion, I would like once again to extend my deep gratitude and appreciation to all my colleagues in the Company for their efforts, which reflected positively on the Company output.

Finally, I would like to extend, on behalf of the members of the board of directors, and myself, heartfelt gratitude and appreciation to His Highness the Amir of Kuwait, Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah and His Highness the Crown Prince and Prime Minister, Sheikh Saad Al-Abdullah Al-Salem Al-Sabah, may God protect them, for their kind concern and continuous support to the investment sector in the country. We would like to extend our deep gratitude as well, to his Excellency the Minister of finance and Chairman of the Public Investment Authority and his Excellency the Governor of the Central Bank of Kuwait for their constant support to us in the performance of our task. Also, I would like to thank all the relevant Government authorities and the Company clients for their continued cooperation with us and their confidence in us, and appeal to the Almighty God to continue blessing all of us with the gift of security and safety and save our beloved country from any animosity, to have mercy on our martyrs and release our Prisoners of War.

Bader Naser AlSubaiee
Chairman and Managing Director

ECONOMY OUTLOOK

Years of Success

GOVERNMENT GENERAL BUDGET

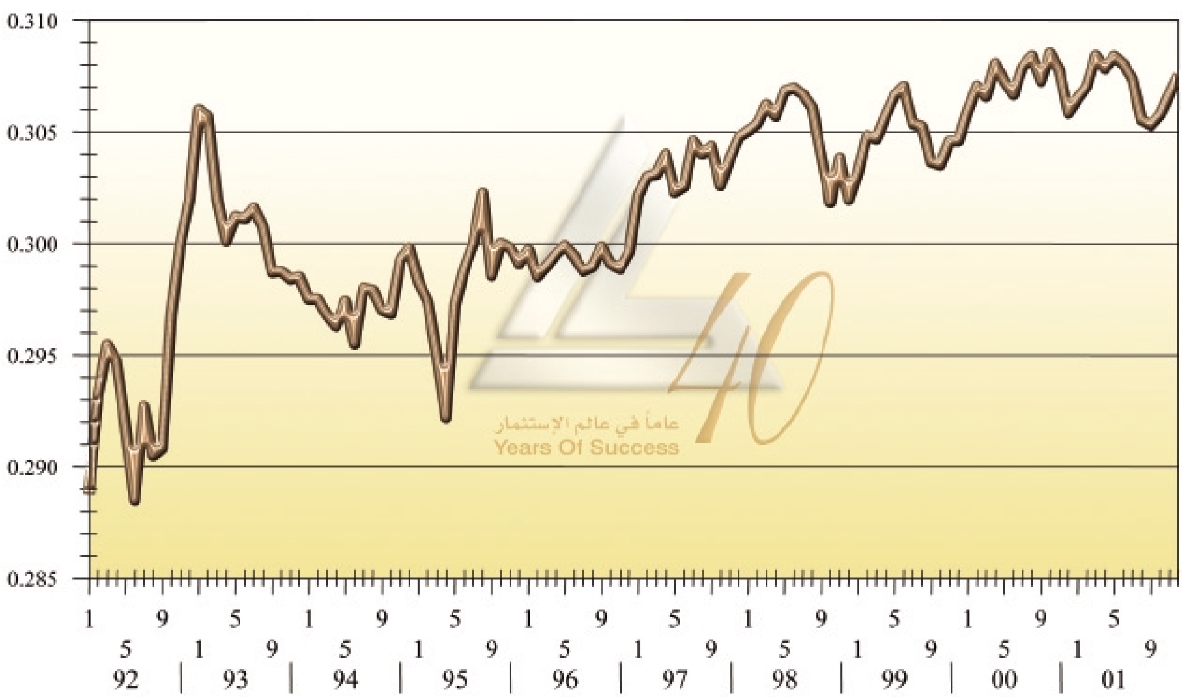
The Government general budget is expected to achieve surplus for the third consecutive year despite the drop in oil prices during the fourth quarter of year 2002. This was contrary to the forecast of the general budget, which was expected to show an estimated deficit amounting to 1.442 billion Kuwaiti Dinars, being a result of the assumption that oil production has reached 2.14 million barrel per day at $15 per barrel, while the average price has reached $21 per barrel during the year. Moreover, the Government spending was below budgetary forecast due to the delay in executing some projects.

MONETARY POLICY

The Central Bank of Kuwait resumed adopting a monetary policy that aims at preserving the stability of the Kuwaiti Dinar against the basket of major currencies that controls Kuwait trade transactions with the rest of the world countries. The Kuwaiti Dinar maintained stability against the US Dollar during the year. It fell back within a marginal range of less than 1%, while the Kuwaiti Dinar exchange rate rose against the other currencies thus marking an increase of 1.2% against the Sterling Pound, 3.7% against the EURO, and more than 13% against the Japanese Yen.

With respect to interest rates, they attained a direction similar to the interest rates on the US Dollar, which is the result of the close

Kuwaiti Dinar per US Dollar
Jan 1992 to Dec 2001



link to the US Dollar. The discount rate was reduced from 7.25%, on the onset of the present year, down to 4.25% by the end of year. Nonetheless, the United States underwent a more severe interest rate reduction, namely from 6.25% to 1.25% during the same period.

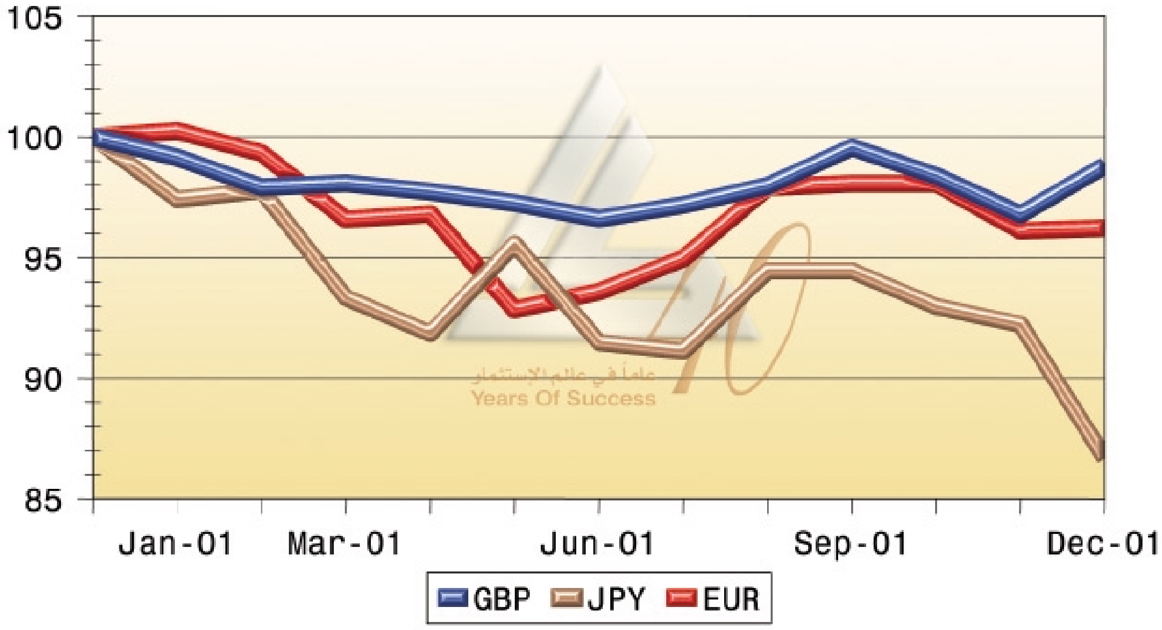
Additionally, money supply surged by 9.6% during the year, representing a growth mostly attributed to increase in Kuwaiti Dinar deposits. On the other hand, deposits in foreign currencies dropped by 8.6%. The KD. deposits increase came as a result of continued payments by the United Nations Compensation Commission that amounted to 740 million Kuwaiti Dinars, and also as a result of increase in the balances of domestic loans.

Total credit facilities have risen by 16.2%, while the banks total assets has increased by 8%.

BANKING SECTOR

Despite the increase in the level of liquid assets and the decrease in interest rates, local banks maintained a strong growth in profitability by marking a 16.6% increase in the banks aggregate profits during the first nine months of the year 2001 as compared to the same period in the previous year. The average return on shareholders equity amounted to 21%, and the return on assets amounted to 2.17%.

Performance of Kuwaiti Dinar Against GBP, EUR and JPY 2001



KUWAIT STOCK EXCHANGE

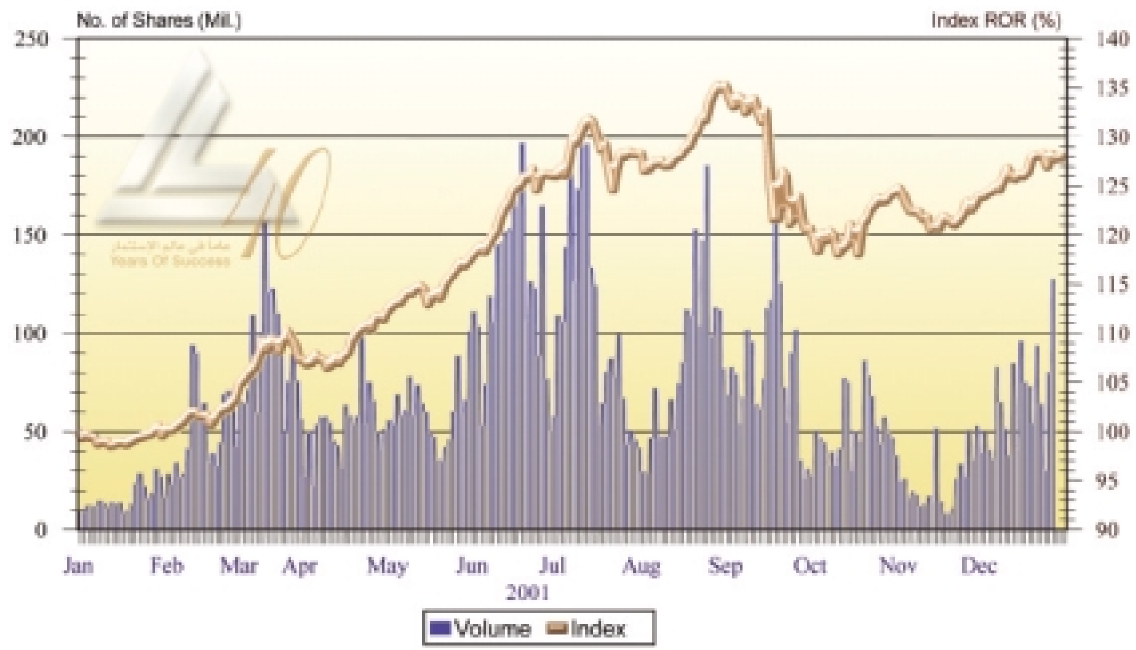
The Kuwait Stock Exchange performed better than other exchanges of the countries in the region. The index of Kuwait Stock Exchange marked an increase of 27%. Trading in the market achieved a noticeable increase, where the value of traded shares rose by 177%. Good performance in the market was mainly attributed to growth in the profits of the listed companies during the year. Besides, the compensations received by some companies for damages resulted from the Iraqi invasion have also contributed in this profit growth.

Additionally, the establishment of local investment funds in the size of 320 million Kuwaiti Dinars has also contributed to supporting the liquidity and stability in the local stock market. The Kuwait Investment Authority has also played a major role in establishing these funds and supporting them through corporeal contribution amounting to 160 million Kuwaiti Dinars.

Furthermore, this year witnessed the Kuwait Investment Authority resumption of allocating Government shares in local companies, after a halt that lasted two years. The Authority sold half of its shares in the Mobile Telecommunication Company through a public underwriting that amounted to 160 million Kuwaiti Dinars, and the response was very strong thus reflecting the high level of available liquidity and the investors' trust in the company's sturdy performance.

Nonetheless, the impact of the September 11th events on the local and global markets, in general, forced the Kuwait Investment Authority to postpone offering its shares for underwriting, especially those of Kuwait Cement Company.

Performance of Kuwait Stock Market
Volume vs. Market Index
2001



■ *COMPANY ACTIVITIES*

The Company was able to realize another year of success despite fluctuations and the state of uncertainty that prevailed in the stock markets during the year 2001. The Company continued its consistent performance and was able to reinforce its relations with existing clients and solicit new ones, notwithstanding the competitive conditions in the local market.

The **Corporate Finance Department** participated in many new domestic and foreign loans and credit facilities, whether conventional or Islamic, and it crowned this by managing and arranging financing facilities for a local investment company. Work and negotiations are underway with number of financial and investment institutions to manage and arrange collective credit facilities. The Management has followed diversification in its investments and participated in financing transactions in accordance with Islamic principles (investment proxy- leasing - deeds). As such, the Company was able to reinstate relations with these institutions, whether local, regional or international, manifested in the abundant financing offers received by the Management. The Management concern is for its investments to be more selective by emphasizing on quality instead of quantity in congruence with the credit policies approved by the senior Management and the rules and regulations of the Central Bank of Kuwait. Such participation contributed in augmenting returns in the form of interests or management and participation fees.

The **Company's Treasury Department** continued its consistent performance by arranging the funds required for the Company departments at the minimum possible cost, and was able to reinforce its relations with existing clients of the Company regardless of the ongoing competition in the local market. Over the year, the Management placed a larger emphasis on investment funds and re-purchase and investment contracts in high yields bonds, as well as meeting the customers' needs in respect of currency trading. Additionally, the Management endeavors to expand its activities by entering into the field of bond first issuance in Kuwaiti Dinar, as well as

expanding in transactions with Islamic institutions. The Management also contributed toward the development of the Company assets, since its assets represent the prevalent item in the budget.

Meanwhile, the **Trading Department** succeeded in maintaining better performance levels as compared to the financial indicators, this despite the implications of the September 11th events in the United States of America and their aftermath on the market which the world underwent.

The Direct Investments Department realized sound returns over the year, thanks to the good performance of these investments and continuous follow up on affiliate and subsidiary companies. Additionally, restructuring the direct investments portfolio was considered so as to realize better return, eliminate non-yielding investments and reinvest the proceeds in more profitable projects.

Under the umbrella of the Company policy aimed at diversifying sources of income, **the Assets Management Sector** established two investment funds, the first is local Al-Ra'ed Investment, and the second International Technology Fund. Following the rise in the number of clients dealing with the Company, especially at Kuwait Stock Exchange, the Company revenue from management and brokerage fees has marked an increase, thus this sector was able to surpass its monetary targets determined for the year 2001 and realized trading profits beyond the expected levels as well as the decided budget, this despite the fluctuations witnessed in the market. Additionally, the increase in revenue from the Financial Services Sector continued, by reducing the Company's exposure in the financial markets as well as focusing on establishing mutual funds, financial advisory and portfolio management services, which resulted in higher returns. Furthermore, work is underway to establish other mutual funds during the next year. An agreement was made to manage the portfolio of bankruptcy preventive composition pertaining to debtors.

The accounting standard 39 - 40 was implemented successfully, with its ensuing change in the accounting information system. Also, preparation is underway to select a new accounting information system for the Company to escort the technological changes, enhance efficiency and productivity, provide data, information and internal periodical reports as well as providing convenience to the clients.

Based on the Company's perspective and its long-term commitment towards human resources, it has always been keen to constantly train its employees and improve their skills. All the senior Management employees joined training courses for the development of general strategies. Recognizing the need to prepare Kuwaiti youths for involvement in the world of finance in the future, the Company is committed to provide practical training to employees at all the Company departments

The Company is regularly developing the communication system for the financial dealings, which will lead to increasing the efficiency of this service in order to offer better service to Company clients. Introducing the electronic archive system is under consideration for convenience of accessing the documents at high speed and efficiency in order to serve all parties.

The Information Technology Department is developing the emergency plan relevant to operating the automated systems and testing them regularly. It has also developed the automated systems for the Company departments, each according to its requirements, and it is currently considering offers or selecting a comprehensive information system for the Company that satisfies all the requirements of the various departments.

Years of Success

AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT INVESTMENT COMPANY (S.A.K.)

We have audited the accompanying consolidated balance sheet of Kuwait Investment Company (S.A.K.) and subsidiaries as of December 31, 2001 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Kuwait National Real Estate Services Co. K.S.C. (Closed) and Kuwait International Fair Co. K.S.C. (Closed), subsidiary Company, which reflect total assets and total revenues of whose reports have been furnished to us and our audit, insofar at is relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors the consolidated financial statements present fairly, in all material respects, the financial position of the group as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Furthermore, in our opinion proper books of account have been kept by the group and the financial statements are in accordance therewith. We further report that we obtained all the information and explanation that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association 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 December 31, 2001 that might have had a material effect of 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 violations of the provisions of Law No. 32 of 1968, concerning currency, the Central Bank of Kuwait and the organization of banking business, and it's related regulations, during the year ended December 31, 2001 that might have had a material effect on the business of the group or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

DR. SHUAIB A. SHUAIB
LICENCE NO. 33 A
MEMBER OF ANDERSEN WORLDWIDE

January 30, 2002
Kuwait

CONSOLIDATED BALANCE SHEET
December 31, 2001

EXHIBIT A

ASSETS	Note	2001 KD	2000 KD
Cash-current and call accounts		2,441,074	2,407,590
Placements	3	54,930,159	31,405,107
Treasury bonds		3,690,000	3,496,000
Investments held for trading	4	41,739,844	29,073,191
Loans and advances	5	15,605,190	14,907,623
Government debt bonds	6	1,602,317	1,957,529
Investments available for sale	7	24,208,474	29,255,981
Investments held to maturity		5,650,000	3,000,000
Unconsolidated subsidiaries and associates	8	2,120,324	2,101,141
Investment Properties	9	7,300,747	7,820,950
Other Assets	10	5,339,260	5,921,790
		164,627,389	**131,346,902**
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
Liabilities:			
Call and notice accounts		10,114,935	10,638,094
Deposits		65,713,184	42,798,304
Bank overdrafts		456,263	≠
Accrued interest payable		262,940	420,918
Accruals and other liabilities	11	7,866,410	7,214,584
Total liabilities		**84,413,732**	**61,071,900**
Minority interest		3,049,292	3,069,066
Shareholders' equity:			
Share capital 500,000,000 authorized, issued and fully paid ordinary shares of 100 fils par value		50,000,000	50,000,000
Treasury shares	12	(1,675)	(1,675)
Statutory reserve	13	6,492,422	5,593,349
General reserve		6,492,422	5,593,349
Retained earnings		12,091,506	6,020,913
Cumulative changes in fair values		2,089,690	≠
Total shareholders' equity		**77,164,365**	**67,205,936**
		164,627,389	**131,346,902**

Bader N. AlSubaiee
Chairman and Managing Director

Rasheed Al-Sayyed Y. Al-Tabtabai
Deputy Chairman

Yousef E. Al-Hassawi
General Manager

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2001

EXHIBIT B

	Note	2001 KD	2000 KD
Income:			
Interest		3,897,134	5,110,696
Dividend income and other investment income		3,222,931	2,091,920
Commissions		2,052,976	2,034,875
Income from property rental and management services (net)	14	2,825,953	2,635,280
Gain from investments held for trading		4,550,607	1,337,550
Gain on sale of investments available for sale		313,011	18,332
Gain on sale of land		93,000	≠
Provision no longer required		≠	281,157
Loss on foreign exchange		(93,908)	(86,783)
Group's share of the results of unconsolidated subsidiaries and associates		66,760	52,095
TOTAL INCOME		**16,928,464**	**13,475,122**
Expenses:			
Interest expense		2,167,707	2,757,242
General, administrative and other expenses	15	5,643,810	4,747,668
Provision for impairment	16	36,847	321,212
Depreciation		502,044	477,245
TOTAL EXPENSES		**8,350,408**	**8,303,367**
Profit from operations		8,578,056	5,171,755
Other income		58,596	314,223
PROFIT BEFORE MINORITY INTERESTS		8,636,652	5,485,978
Minority interests		(620,073)	(510,046)
PROFIT FROM ORDINARY ACTIVITIES		**8,016,579**	**4,975,932**
Extraordinary income	17	974,159	1,491,512
PROFIT FOR THE YEAR		**8,990,738**	**6,467,444**
Contribution to Kuwait Foundation for the Advancement of Sciences		(161,833)	(116,414)
Directors' remuneration		(49,000)	(49,000)
National labour support tax		(171,862)	≠
NET PROFIT FOR THE YEAR		**8,608,043**	**6,302,030**
EARNINGS PER SHARE	18	**Fils 17,22**	**Fils 12,60**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2001

EXHIBIT C

	Note	2001 KD	2000 KD
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit from ordinary activities		8,016,579	4,975,932
Adjustments for:			
Depreciation		502,044	477,245
Group's share of results of unconsolidated subsidiaries and associates		(66,760)	(52,095)
Minority interest		620,073	510,046
Provision for impairment		50,647	321,212
Provision no longer required		(13,800)	(281,157)
Unrealised losses from revaluation of investments held for trading		95,606	≠
Gain on sale of investments available for sale		(313,011)	(18,332)
Gain on sale of land		(93,000)	≠
OPERATING PROFIT BEFORE CHANGES IN THE OPERATING ASSETS AND LIABILITIES		**8,798,378**	**5,932,851**
(Increase) decrease in placements		(1,404,915)	11,853,251
(Increase) decrease in treasury bonds		(194,000)	2,217,000
Increase in investments held for trading		(12,756,127)	(28,063,945)
Increase in loans and advances		(712,214)	(10,987,165)
Decrease in governments debt bonds		355,212	1,593,856
Decrease (increase) in other assets		405,092	(788,045)
Increase (decrease) in deposits		3,910,000	(2,558,380)
(Decrease) increase in accrued interest payable		(157,978)	89,270
Increase (decrease) in accruals and other liabilities		237,692	(647,756)
Decrease in minority interest		(639,847)	(735,000)
CASH FLOW BEFORE EXTRAORDINARY INCOME		**(2,158,707)**	**(22,094,063)**
Extraordinary income		974,159	1,491,512
Net cash used in operating activities		**(1,184,548)**	**(20,602,551)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of investment property		676,000	≠
Purchase of investment property		(386,863)	(577,020)
Cash dividends received		45,089	33,743
Proceeds from sale of investments available for sale		10,706,674	217,277
Purchase of investments held to maturity		(5,650,000)	(550,000)
Proceeds from redemption of investments held to maturity		3,000,000	≠
Net cash from (used in) investing activities		**8,390,900**	**(876,000)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividend paid		(3,990,715)	(5,962,124)
Net cash used in financing activities		**(3,990,715)**	**(5,962,124)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,215,637**	**(27,440,675)**
Cash and cash equivalents at the beginning of year		(29,535,076)	(2,094,401)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	19	**(26,319,439)**	**(29,535,076)**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2001

EXHIBIT D

	Share capital KD	Treasury shares KD	Statutory reserve KD	General reserve KD	Retained earnings KD	Cumulative changes in fair values KD	Total KD
Balance at January 1, 2001	50,000,000	(1,675)	5,593,349	5,593,349	6,020,913	≠	67,205,936
Effect of implementing IAS 39	≠	≠	≠	≠	3,370,717	≠	3,370,717
Cash dividend for 2000 - 8%	≠	≠	≠	≠	(3,999,954)	≠	(3,999,954)
Fair value adjustment on sale of available for sale financial assets	≠	≠	≠	≠	(110,067)	≠	(110,067)
Net profit for the year	≠	≠	≠	≠	8,608,043	≠	8,608,043
Effect of changes in fair values of available for sale financial assets	≠	≠	≠	≠	†≠	2,089,690	2,089,690
Transfer to reserves	≠	≠	899,073	899,073	(1,798,146)	≠	†≠
Balance at December 31, 2001	**50,000,000**	**(1,675)**	**6,492,422**	**6,492,422**	**12,091,506**	**2,089,690**	**77,164,365**
Balance at January 1, 2000	50,000,000	(1,675)	4,946,605	4,946,605	7,012,302	≠	66,903,837
Cash dividends for 1999 - 12%	≠	≠	≠	≠	(5,999,931)	≠	(5,999,931)
Net profit for the year	≠	≠	≠	≠	6,302,030	≠	6,302,030
Transfer to reserves	≠	≠	646,744	646,744	(1,293,488)	≠	†≠
Balance at December 31, 2000	**50,000,000**	**(1,675)**	**5,593,349**	**5,593,349**	**6,020,913**	≠	**67,205,936**

The accompanying notes are an integral part of the consolidated financial statements.

1. ORGANIZATION AND NATURE OF OPERATIONS

The consolidated financial statements of Kuwait Investment Company S.A.K. and Subsidiaries (the group) for the year ended December 3l, 2001 were authorised for issue in accordance with a resolution of the directors on January 30, 2002. The shareholders' general assembly has the power to amend these financial statements after issuance. Kuwait Investment Company (S.A.K.), "the parent company" is a public shareholding investment company organized under the laws of the State of Kuwait and its registered office is at Souk Al Manakh, Mubarak Al Kabeer Street, Kuwait. The parent company's major shareholder is Kuwait Investment Authority. Details of subsidiary companies are set out in Note 21.

The group is primarily engaged in the following activities:

- Security trading and investment
- Real estate investment
- Property rental and management
- Underwriting bonds and certificate of deposit issues
- Time deposit acceptance and placement with financial institutions
- Foreign exchange contracts

At December 31, 2001, the group had 247 employees (December 3l, 2000: 242 employees).

2. SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB, and applicable requirements of Ministerial Order No. 18 of 1990. The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of trading and available for sale investments.

The consolidate financial statements have been presented in Kuwaiti Dinars.

The consolidated financial statements comprise of the parent company and its subsidiaries Kuwait National Real Estate Services Company K.S.C (Closed) and Kuwait International Fair Company K.S.C. (Closed), both closed Kuwaiti shareholding companies.

In 2001, the group adopted IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Properties". Further information is disclosed in accounting policies.

The financial effects of adopting IAS 39 are reported in the statement of changes in shareholders' equity. IAS 39 has been applied prospectively in accordance with the requirements of the standard and therefore comparative financial information has not been restated, but has been reclassified to conform with the presentation in the current year.

The company has adopted the cost model for valuation of investment properties as provided by IAS 40 whereby investment properties are stated at cost less accumulated depreciation and impairment losses, if any, and fair value of such properties is disclosed based on appraisals done at year end. This implementation did not have any impact of the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation

Subsidiaries are those enterprise controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries, other than those that are held with a view to disposal in the near future and subsidiaries the are considered not material to the financial statements of the parent company, are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any significant intra-group balances and transactions, and any unrealised gains arising from the inter-group transactions, are eliminated in preparing the consolidated financial statements.

Recognition, classification and measurement of financial instruments

In accordance with IAS 39 the group has reclassified financial instruments as ‘held for trading’, ‘originated assets’, ‘held to maturity’ or ‘available for sale’. Those classified as ‘held for trading’ and ‘available for sale’ are carried at fair values. Those classified as ‘originated assets’ and ‘held to maturity’ are carried at amortised cost. Any adjustment of the opening carrying amounts arising from remeasurement at 1 January 2001 has been recognised as an adjustment of the opening retained earnings. The effect of implementing IAS (39) on the net profit is unrealised losses resulting from revaluation of investments held for trading by KD 95,606

A financial asset or a financial liability is recognized when the group becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the group loses control of the contractual rights that comprise the financial asset and a financial liability is re-recognised when the obligation specified in the contract is discharged, cancelled or expired.

All financial instruments are initially recognised at cost (which includes transaction costs).

Derivative instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently measured at their fair value.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivative with negative market values (unrealised losses) are included in other liabilities in the balance sheet. The resultant gains and losses are included in income.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that assets is determined based on the net present value of future cash flow, discounted at original interest rates and any impairment loss is recognised in the statement of income.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand together with treasury bills, deposits with banks and other financial institutions less bank overdrafts and amounts due to banks and other financial institutions maturing within ninety days from the date of acquisition.

Resale agreements

Assets purchased with a corresponding commitments to resell at a specified future date (reverse repos) are not recognised in the balance sheet, as the group does not obtain control over the assets. Amounts paid under these agreements are included in placements or loans and advances to customers, as appropriate. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Placements

Placements are stated at amortised cost less any provision for impairment. Placements are classified as "assets originated by the group".

Treasury bonds

Treasury bonds are stated at amortised cost less any provision for impairment. Treasury bonds are classified as "receivables originated by the group".

Loans and advances

Loans originated by the group by providing money directly to the borrower or to a sub-participation agent at draw down are classified as 'loans originated by the group' and are carried at amortised cost. Third party expenses such as legal fees, incurred in granting a loan are treated as part of the cost of the transaction.
All loans and advances are recognised when cash is advanced to borrowers.
Loans and advances are written off when there is no realistic prospect of recovery.

Government debt bonds

Government debt bonds are carried at cost. These are classified as "assets originated by the group".

Investments held for trading

Investments held for trading are securities that were either acquired for generating a profit from short-term fluctuations in price or dealers margin. Investments held for trading are measured at fair values based on quoted current bid prices. All realised and unrealised gains and losses are included in the statement of income.

Investments available for sale

Securities acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in value, interest rates or exchange rates are classified as 'available for sale".
Subsequent to acquisition 'Available for sale' financial assets are re-measured at fair values and unrealised gains and losses arising from changes in their fair values are taken to equity. When the 'available for sale' asset is disposed of, or impaired, the related accumulated fair value adjustments are transferred to the income statement as gains or losses. Fair values are based on quoted current bid prices or using the current market rate of interest for that instrument. Fair values for unquoted equity instruments are estimated using applicable price/earning or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

Investments held to maturity

Investments with a fixed maturity and where managements has both the intent and ability to hold to maturity are classified as "investments held to maturity" and are carried at amortised cost.

Prior year accounting policies for investments

In 2000, prior to adoption of IAS 39, investments were classified as dealing securities or investment securities.
Dealing securities were marketable securities that were acquired or held with the intention of reselling them in the short-term and were valued on the balance sheet date at the lower of cost or market value, on an aggregate basis, and their cost was determined on an average basis.
Investment securities acquired or held for yield or capital growth purposes were valued at cost with a provision for decline other than temporary in value, if any, on an individual basis.
Management determines the appropriate classification of the investment at time of acquisition.

Unconsolidated subsidiaries and associates

Investments comprising between 20% and 50% of the total equity share capital of a company and over which the group can exert significant influence are classified as associates. Unconsolidated subsidiaries and associates are accounted for using the equity method of accounting based on the latest audited financial statements or other information as appropriate, adjusted for any impairment in value and the pro rata share of income (loss) therefrom is included in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Developed land and buildings and buildings on leased land are stated at cost and are depreciated using the straight-line method over their estimated useful lives of 20 years for developed land and buildings and 12 to 50 years for buildings on leased land. Undeveloped land is not depreciated. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

Call and notice accounts and deposits

Call and notice accounts and deposits are stated at amortised cost.

Provisions

Provisions are recongised when, as a result of past events, it is probable that an out flow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliable estimated.

Treasury shares

The cost of parent company's own shares purchased, including directly attributable costs, is recognised as a change in equity. Gains or losses arising on sale are separately disclosed under shareholders’ equity and, in accordance with the instructions of Central Bank of Kuwait, these amounts are not available for distribution.

Revenue recognition

Interest earned and income from real estate are recorded on the accruals basis. Dividend income is recorded when the right to receive is established. Management fees relating to portfolios and fund management are recognised when earned. Commissions from guarantees and commitments are recorded on the accruals basis. Revenue from property rental and mangement services are recoginsed when services are rendered by the group.

Fiduciary assets

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

Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognised using trade date accounting. Changes in fair value between the trade date and settlement date are recognised in income. 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.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

3. PLACEMENTS

Placements include a blocked deposit with a local bank in the amount of US$ 6 million (2000: US$ 6.25 million) equivalent to KD 1,845,360 (2000: KD 1,911,375). This deposit is placed as collateral against loans granted by that bank to Kuwait Foreign Investment Co., Inc., a subsidiary. This deposit will not be released until the loans are repaid.

Also included in placements is an amount of KD 9,000,000 paid for managed fund under a reverse repurchase agreement.

4. INVESTMENTS HELD FOR TRADING

	2001	2000
	KD	KD
Kuwaiti shares	10,142,414	12,967,979
Gulf shares	42,571	271,936
Local funds	16,528,387	6,825,907
Foreign treasury bonds	4,222,989	≠
Foreign shares	6,766,226	7,181,782
Foreign funds	4,037,257	1,825,587
Total	**41,739,844**	**29,073,191**

5. LOANS AND ADVANCES

Loans and advances are stated net of provision for impairment. The composition of the loans and advances portfolio is as follows:

	2001	2000
	KD	KD
Commercial and business loans:		
International	5,770,930	8,870,137
Domestic	9,834,260	6,037,486
Total	**15,605,190**	**14,907,623**

Movement in provision for impairment:

	2001	2000
	KD	KD
Balance at beginning of the year	21,621,963	21,490,539
Charge for the year (Not 16)	50,647	226,992
Exchange differences`	96,917	54,850
Amounts written-off	≠	(56,112)
	21,769,527	21,716,269
Amounts ceded to the Central Bank of Kuwait	≠	(94,306)
Balance at end of the year	**21,769,527**	**21,621,963**

The group calculates specific provisions on losses of the loans and advances originated by the company against credit risks. The specific provision is made for loans originated by the group against the credit risks due to impairment of loans and advances in case there is an objective evidence of non-collection of the due amount. The provision amount is the difference between the carrying value of loans and advances and the recoverable amount, which is the present value of the expected future cash flows including the amounts recovered from collaterals and pledged assets in favour the group, discounted by the effective interest rate prevailing in the market for loans of variable rates. The statement of income is charged by the loss arising from impairment in loans and advances

The policy for the parent company for calculation of the provision for impairment for loans and advances complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait. In this respect the Central Bank of Kuwait requires a general provision of 2% on all credit facilities not subject to specific provision.

6. GOVERNMENT DEBT BONDS

The Central Bank of Kuwait purchased resident Kuwaiti customers' debts and resident debts of other Gulf Cooperation Council nationals existing as of August 1, 1990, in addition to related interest up to December 31, 1991, on behalf of the Government of Kuwait in accordance with Decree No. 32/92 and Law No. 41/93, as amended, in respect of the financial and banking sector. These balances related to a company acquired after August 1, 1990 and subsequently merged with the parent company.

The purchase value of these debts was settled by the issue of bonds, with a value date of December 31, 1991. The bonds mature over a maximum period of twenty years from the value date. Interest will be at a rate fixed semi-annually by the Central Bank of Kuwait, and will be payable semi-annually in arrears; the average rate for 2001 was 4.35% (2000-5.50%).

The group has a contingent liability in respect of any adjustment that the Central Bank of Kuwait might make to the amount of the bonds, in respect of debts that do not fulfill the conditions of the law under which they were purchased.

7. INVESTMENTS AVAILABLE FOR SALE

	2001	2000
	KD	KD
Quoted securities	13,436,679	25,504,345
Unquoted securities	10,771,795	3,751,636
	24,208,474	**29,255,981**

On adoption of IAS 39 effective I January 2001, the group classified its investment securities as "available for sale" assets and re-measured them at fair value resulting in an unrealised gain of KD 3,370,717 which was taken to opening retained earnings as of 1 January 2001.

Investments amounting to KD 1,305,671 are carried at cost because of the non-availability of financial information to reliably estimate fair values.

8. UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATES

	2001	2000
	KD	KD
Unconsolidated subsidiaries	1,416,740	1,422,388
Associates:		
Kuwaiti Pacific Finance	712,129	708,149
Others	(8,545)	(29,396)
	703,584	**678,753**
	2,120,324	**2,101,141**

The parent company owns 50% of Kuwait Pacific Finance.

These investments were not consolidated because their results are not material to the financial statements of the group.

9. INVESTMENT PROPERTIES

	Developed land and buildings	Buildings on leased land	Undeveloped land	Total
	KD	**KD**	**KD**	**KD**
Cost				
At 1 January	1,196,233	11,333,999	2,210,209	14,740,441
Additions	403,970	≠	≠	403,970
Disposals	≠	≠	(712,530)	(712,530)
At 31 December	1,600,203	11,333,999	1,497,679	14,431,881
Depreciation				
At 1 January	209,972	5,863,416	846,103	6,919,491
Provided during the year	16,569	324,605	≠	341,174
Disposals	≠	≠	(129,531)	(129,531)
At 31 December	226,541	6,188,021	716,572	7,131,134
Net book value:				
At 31 December 2001	**1,373,662**	**5,145,978**	**781,107**	**7,300,747**
At 31 December 2000	**986,261**	**5,470,583**	**1,364,106**	**7,820,950**

The group has one of its buildings erected on land leased from the Government of Kuwait for 25 years which expired on April 1, 1999, and which can be renewed for a similar period. The group is in the process of renewing the lease agreement. In case renewal is not granted, the Government of Kuwait will pay the group compensation equivalent to the construction value.

The fair value of investment properties at December 31, 2001 is KD 7,702,181 (2000: KD 7,820,950).

10. OTHER ASSETS

	2001	2000
	KD	**KD**
Accounts receivable	1,757,977	2,013,004
Accrued interest	552,237	1,693,680
Others	3,029,046	2,215,106
	5,339,260	**5,921,790**

11. ACCRUALS AND OTHER LIABILITIES

	2001	2000
	KD	**KD**
Sundry creditors and accrued charges	2,769,683	2,877,707
Provision for staff indemnities	3,478,971	3,074,684
Provision for staff leave	555,773	484,123
Payable to Kuwait Foundation for the Advancement of Sciences	161,833	116,414
Other	900,150	661,656
	7,866,410	**7,214,584**

12. TREASURY SHARES

At December 31, 2001 the parent company held 5,780 (2000: 5,780) of its own shares, equivalent to 0.001156% (2000: 0.001156%) of the total issued share capital. The market value of these shares at December 31, 2001 was KD 971 (2000: KD 867).

13. STATUTORY RESERVE

In accordance with the Commercial Companies Law of 1960, as amended, 10% of net profit for the year is transferred to statutory reserve.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

14. INCOME FROM PROPERTY RENTAL AND MANAGEMENT SERVICES NET

	2001 KD	2000 KD
Revenue	5,158,656	4,883,688
Less: Costs	(2,332,703)	(2,248,408)
	2,825,953	2,635,280

15. GENERAL, ADMINISTRATIVE AND OTHER EXPENSES

General, administrative and other expenses includes staff costs of KD 3,416,572 (2000: KD 3,249,303).

16. PROVISION FOR IMPAIRMENT

	2001 KD	2000 KD
Loans and advances	50,647	226,992
Other receivables	≠	94,220
Release of provision for non-cash facilities	(13,800)	≠
	36,847	**321,212**

17. EXTRAORDINARY INCOME

During the year, the group received KD 974,159 (2000: KD 2,481,658) from the United Nations Compensation Committee (UNCC) as final settlement of a total claim amounting to US $ 11,138,588 which was agreed with the Public Authority for the Assessment of Compensation for losses suffered as a result of the Iraqi invasion and occupation of Kuwait and was forwarded to the United Nations for settlement.

Of the claim received, and amount of KD Nil (2000: KD 990,146) was ceded to the Central Bank of Kuwait in accordance with the provisions of Decree No. 32/92. The balance of KD 974,159 (2000: KD 1,491,512) has been recorded by the group as extraordinary income.

18. EARNINGS PER SHARE

Earnings per share is based on net profit for the year of KD 8,608,043 (2000: KD 6,302,030) divided by the weighted average number of ordinary shares, net of treasury shares, of 499,994,220(2000: 499,994,220).

19. CASH AND CASH EQUIVALENTS

	2001	2000
	KD	KD
Cash-current and call accounts	2,441,074	2,407,590
Placements maturing within ninety days	36,623,869	14,503,732
Call and notice accounts and deposits maturing within ninety days	(64,928,119)	(46,446,398)
Bank overdrafts	(456,263)	≠
	(26,319,439)	**(29,535,076)**

20. PROPOSED CASH DIVIDENDS

Subsequent to the balance sheet date the Board of Directors of the group have proposed a cash dividend of 12 fils per share after excluding treasury shares totaling KD 5,999,931. This proposal is subject to the approval of the shareholders' annual general assembly.

During 2001 a cash dividend of 8 fils per share after excluding treasury shares totaling KD 3,999,954 for the year ended December 31, 2000 was approved at the 2001 annual general meeting and was paid in 2001 following that approval; any unpaid dividends are included under other liabilities.

21. SUBSIDIARY COMPANIES

Details of significant subsidiary companies are set out below:

Name	*Country of incorporation*	*Percentage of ownership*	*Purpose*
Kuwait International Fair Company K.S.C. (Closed)	Kuwait	51%	Property rental services
Kuwait National Real Estate Services Company K.S.C. (Closed)	Kuwait	100%	Property rental and management services
Credit Des Burges	Switzerland	100%	Investment management services
Kuwait Foreign Investment Inc.	USA	100%	Property rental and management services

Investment in unconsolidated subsidiaries, Credit Des Burges and Kuwait Foreign Investment Inc, are disclosed separately in Note 8.

A portion of the voting capital of Kuwait National Real Estate Services K.S.C (Closed) is held by Kuwaiti individuals as nominees of the parent company. These nominees have confirmed in writing that the parent company is the beneficial owner of the shares.

The company is the sole shareholder in certain other enterprises which are in the nature of special purpose vehicles for investment management purposes. The company does not have significant benefits nor does it have any ownership risks in the assets managed through these entities. Accordingly, these enterprises are not consolidated and are not included in the list of subsidiaries.

22. FIDUCIARY ASSETS

The group manages investment portfolios on behalf of a principal shareholder, Government agencies and financial institutions. The total value of those portfolios amounted at year-end to KD 1,53 billion (2000: KD 1.43 billion). Those portfolios are not reflected in the financial statements.

As an agent for its custody clients, the group enters into contractual agreements with counterparties, usually brokers, whereby the brokers can borrow the custody clients' securities for a specified period of time to enhance the return on clients' securities. A risk of loss occurs to the portfolio owners if the counterparties default.

23. RELATED PARTY TRANSACTIONS

These represent transactions with certain related parties who were customers of the group during the year. The terms of these transactions are approved by the group's management. The balances included in the financial statements at year-end were as follows:

	2001	2000
	KD	KD
Balance sheet:		
Loans and advances	222,963	269,201
Other assets	43,689	43,689
	266,652	**312,890**
Liabilities:		
Call and notice accounts	7,716,013	7,643,024
Deposits	307,560	305,820
Accruals and other Liabilities	≠	379,013
	8,023,573	**8,327,857**
Income statement:		
Interest income	28,529	≠
Commissions	308,155	764,935
General, administrative and other	15,967	15,472
Interest expense	240,171	281,445

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

In the opinion of managements, except for Government debt bonds, carrying values of all other financial instruments are not significantly different from fair values.

It is not practicable to determine the fair value of Government debt bonds with sufficient accuracy, as the future cash flows are not determinable. Information on the principal characteristics of these bonds is presented in Note 5 to the consolidated financial statements.

25. FINANCIAL INSTRUMENTS

In the ordinary course of business the group uses financial instruments including derivatives. The use of financial instruments also brings with it the 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 of the group's major risk-based lines of business.

The following sections describe the several risks inherent in the business, their nature and how they are managed.

A- 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 attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk 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 of credit risk 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 locations or business. It also obtains security when appropriate.

Geographical risk analysis

Geographical concentration of assets and liabilities:

	Assets		Liabilities, minority interest and shareholders' equity		Off balance sheet items	
	2001 KD 000	**2000 KD 000**	**2001 KD 000**	**2000 KD 000**	**2001 KD 000**	**2000 KD 000**
G.C.C,	138,571	113,124	155,634	128,748	1,910	2,600
Other Middle East and Africa	1,069	1,126	≠	≠	≠	≠
Europe	10,505	10,266	8,787	2,473	≠	1,850
North America	12,142	6,028	≠	≠	≠	≠
Asia	2,322	791	206	126	≠	≠
Latin America	≠	≠	≠	≠	≠	≠
Others	18	12	≠	≠	≠	≠
	164,627	**131,347**	**164,627**	**131,347**	**1,910**	**4,450**

Financial instruments with contractual amounts representing credit risk

In the normal course of meeting the needs of its customers for liquidity and foreign exchange and interest rate protection, managing its own exposure to fluctuations in interest rates and foreign exchange rates, and earning trading and fee revenue, the group is a party to various derivative financial instruments. All financial instruments are subject to normal credit standards, financial controls, and risk management and monitoring procedures.

25. FINANCIAL INSTRUMENTS (CONTINUED)

	2001	2000
	KD	KD
Commitments on behalf of customers for which		
there were corresponding		
liabilities by the customer concerned:		
Guarantees	1,910	2,600

Commitments to extend credit at the balance sheet date amounted of KD 2,812,500 (2000: KD Nil).

Financial instruments with contractual or notional amounts that exceed credit risk

	2001	2000
	KD 000	KD 000
Forward foreign exchange contracts	≠	1,850

Derivative financial instruments with contractual or notional amounts that exceed credit risk, comprising foreign exchange contracts, allow the group and its customers to modify their foreign exchange and interest rate risks.

The amount subject to credit risk is limited to the current replacement value of instruments that are favorable to the group, which is only a small fraction of the contractual or nominal amounts used to express the volume of instruments outstanding. The credit risk exposure is managed as part of the overall borrowing limits granted to customers. Collateral security is usually obtained for credit risk exposures on these instruments.

B- INTEREST RATE RISK

Interest rate risk is the sensitivity of the group's financial condition to future movements in interest rates. The group is exposed to interest rate risk as result of mismatches or 'gaps' in the amounts of assets and liabilities that mature or reprice in a given period. The group can reduce this risk by matching the repricing of assets and liabilities through a number of means.

The group's interest rate repricing maturity profile, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

25. FINANCIAL INSTRUMENTS (CONTINUED)

At December 31. 2001

	Up to 1 month KD 000	1 - 3 months KD 000	3 - 12 months KD 000	Non interest sensitive KD 000	Total KD 000	Effective interest rate %
Assets						
Cash	≠	≠	≠	2,441	2,441	≠
Placements	32,385	13,545	9,000	≠	54,930	3,125-6.562
Treasury bonds	≠	2,259	1,431	≠	3,690	4,5-6,125
Investments held for trading	≠	2,144	2,078	37,518	41,740	3,5-5
Loans and advances	2,400	6,050	6,767	388	15,605	1,1 - 9
Government debt bonds	≠	≠	1,602	≠	1,602	3,74
Investments available for sale	≠	≠	2,000	2,208	24,208	8
Investments held to maturity	≠	≠	5,650	≠	5,650	6,25-7
Unconsolidated subsidiaries and associates	≠	≠	≠	2,120	21,120	≠
Investment properties	≠	≠	≠	7,301	7,301	≠
Other assets	144	≠	≠	5,196	5,340	6
	34,929	**23,998**	**28,528**	**77,172**	**164,627**	
Liabilities, minority interest and shareholders' equity						
Call and notice accounts	10,115	≠	≠	≠	10,115	0,13-2
Deposits	52,913	3,000	9,800	≠	65,713	0,13-6,5
Bank overdraft	456	≠	≠	456	6,25	
Accrued interest payable	≠	≠	≠	263	263	≠
Accruals and other liabilities	≠	≠	≠	7,867	7,867	≠
Minority interest	≠	≠	≠	3,049	3,049	≠
Shareholders' equity	≠	≠	≠	77,164	77,164	≠
	63,484	**3,000**	**9,800**	**88,343**	**164,627**	≠

25. FINANCIAL INSTRUMENTS (CONTINUED)

At December 31, 2000

	Up to 1 month KD 000	1 - 3 months KD 000	3 - 12 months KD 000	Non interest sensitive KD 000	Total KD 000	Effective interest rate %
Assets						
Cash	≠	0	0	2,408	2,408	
Placements	12,164	12,811	6,430	≠	31,405	3,37-8.25
Treasury bills and bonds	1,377	≠	2,119	≠	3,496	6,625-7
Investments held for trading	≠	≠	≠	29,073	29,073	≠
Loans and advances	4,921	9,328	269	389	14,907	1,53-9.25
Government debt bonds	≠	≠	1,958	≠	1,958	5.5
Investments available for sale	≠	11,988	6,984	10,284	29,256	7,5-8.625
Investments held to maturity	≠	≠	3,000	≠	3,000	7,875-8
Unconsolidated subsidiaries and associates	≠	≠	≠	2,101	2,101	≠
Investment properties	≠	≠	≠	7,821	7,821	≠
Other assets	137	≠	≠	5,785	5,922	6
	18,599	**34,127**	**20,760**	**57,861**	**131,347**	

	Up to 1 month KD 000	1 - 3 months KD 000	3 - 12 months KD 000	Non interest sensitive KD 000	Total KD 000	Effective interest rate %
Liabilities, minority interest and shareholders' equity						
Call and notice accounts	10,638	≠	≠	≠	10,638	1,35-3.25
Deposits	33,468	5,900	3,430	≠	42,798	1,35-7.125
Accrued interest payable	≠	≠	≠	421	421	≠
Accruals and other liabilities	≠	≠	≠	7,215	7,215	≠
Minority interest	≠	≠	≠	3,069	3,069	≠
Shareholders' equity	≠	≠	≠	67,206	67,206	≠
	44,106	**5,900**	**3,430**	**77,911**	**131,347**	

C - LIQUIDITY RISK

Liquidity risk is the risk that the group will be unable meet its net funding requirements. Liquidity risk can be caused by marked disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on the contractual repayment arrangements.

25. FINANCIAL INSTRUMENTS (CONTINUED)

C - LIQUIDITY RISK

	At December 31, 2001					At December 31, 2000				
	1 - 3 months	3 - 12 months	1 - 5 year	Over 5 year	Total	1 - 3 months	3 - 12 months	1 - 5 year	Over 5 year	Total
	KD 000	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**
ASSETS										
Cash	2,441	≠	≠	≠	2,441	2,408	≠	≠	≠	2,408
Placements	41,485	11,600	1,845	≠	54,930	23,729	5,765	1,911	≠	31,405
Treasury bonds	1,320	2,370	≠	≠	3,690	1,377	2,119	≠	≠	3,496
Investments held for trading	41,740	≠	≠	≠	41,740	29,073	≠	≠	≠	29,073
Loans and advances	≠	1,507	14,098	≠	15,605	≠	2,982	11,925	≠	14,907
Government debt bonds	≠	≠	1,602	≠	1,602	≠	≠	1,958	≠	1,958
Investments available for sale	≠	7,056	4,169	12,983	24,208	8,998	10,000	≠	10,258	29,256
Investments help for maturity	≠	≠	5,650	≠	5,650	≠	1,000	2,000		3,000
Unconsolidated subsidiaries and associates	≠	≠	≠	2,120	2,120	≠	≠	≠	2,101	2,101
Investments properties	≠	781	≠	6,520	7,301	≠	1,929	≠	5,892	7,821
Other assets	2,542	460	824	1,514	5,340	3,305	1,091	1,526	≠	5,922
	89,528	**23,774**	**28,188**	**23,137**	**164,627**	**68,890**	**24,886**	**19,320**	**18,251**	**131,347**
LIABILITIES AND SHAREHOLDERS' EQUITY										
Call and notice accounts	10,115	≠	≠	≠	≠	10,638	≠	≠	≠	10,638
Deposits	55,913	9,800	≠	≠	65,713	39,368	3,430	≠	≠	42,798
Bank overdraft	456	≠	≠	≠	456	≠	≠	≠	≠	≠
Accrued interest payable	147	≠	≠	116	263	357	64	≠	≠	421
Accruals and other liabilities	1,263	2,533	592	3,479	7,867	1,325	2,390	≠	3,500	7,215
Minority interest	≠	≠	≠	3,049	3,049	≠	≠	≠	3,069	3,069
Shareholders' equity	≠	≠	≠	77,164	77,164	≠	≠	≠	67,206	67,206
	67,894	**12,333**	**592**	**83,808**	**164,627**	**51,688**	**5,884**	≠	**73,775**	**131,347**

25. FINANCIAL INSTRUMENTS (CONTINUED)

D- CURRENCY RISK

The group views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. Hedging transactions are used to manage any significant risk in other currencies.

The group had the following significant net exposures denominated in foreign currencies as at 31 December 2001.

	2001 KD 000	2000 KD 000
	Equivalent Long/(Short)	Equivalent Long/(Short)
Net assets (liabilities):		
US Dollars	390	(852)
Euros	296	310
Pounds Sterling	(248)	(207)
Japanese Yen	126	111
Others	858	1,899

E- MARKET RISK

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The group is exposed to market risk with respect to its investments.

The group limits Market risk by maintaining a diversified portfolio and by continuous monitoring of development in international equity and bond markets. In addition, the group actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

26. SEGMENTAL ANALYSIS

The group is organized into functional divisions to manage its various lines of business. The group operates mainly in the State of Kuwait and, accordingly, does not have a secondary segment. For the purposes of primary segment reporting, the group's management has grouped the group's products and services into the following business segments:

- ❖ Investment trading: Consists of securities trading and investment activities.
- ❖ Treasury: Consists of foreign exchange and money market activities.
- ❖ Asset management: Consists of investment portfolio activities.
- ❖ Other operations: Consists of lending, real estate, property rental and management activities and other activities.

There are no inter-segmental transactions. The following is the detail of the above segments, which constitutes the primary segment information:

	December 31, 2001					***December 31, 2000***				
	Investment Trading	Treasury	Asset management	Other operations	Total	Investment Trading	Treasury	Asset management	Other operations	Total
	KD 000	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**
Segment operating income	10,790	2,264	333	3,541	16,928	5,860	3,245	490	3,880	13,475
Segment operating expense	(3,163)	(1,708)	(429)	(876)	(6,176)	(809)	(3,185)	(362)	(2,368)	(6,724)
Segment results	7,627	556	(96)	2,665	10,752	5,051	60	128	1,678	6,751
Other income	≠	≠	≠	≠	59	≠	≠	≠	≠	314
Extra ordinary income	≠	≠	≠	≠	974	≠	≠	≠	≠	1,492
Unallocated expenses	≠	≠	≠	≠	(3,177)	≠	≠	≠	≠	(2,255)
Net profit for the year	≠	≠	≠	≠	8,608	≠	≠	≠	≠	6,302
Other information:										
Segment assets	69,663	65,246	≠	29,200	164,109	67,073	35,942	≠	27,742	130,757
Unallocated assets	≠	≠	≠	≠	518	≠	≠	≠	≠	590
Total Assets	≠	≠	≠	≠	164,627	≠	≠	≠	≠	131,347
Segment liabilities	≠	76,168	≠	2,899	79,067	≠	53,914	≠	2,368	56,282
Unallocated liabilities	≠	≠	≠	≠	5,347	≠	≠	≠	≠	4,790
Total Liabilities	≠	≠	≠	≠	84,414	≠	≠	≠	≠	61,072
Capital expenditures	≠	≠	≠	≠	954	≠	≠	≠	≠	236
Depreciation	≠	≠	≠	≠	502	≠	≠	≠	≠	477
Other non-cash expenses	≠	≠	≠	≠	488	≠	≠	≠	≠	466


40
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